

Primerica, Inc.  
Form 10-K  
February 27, 2014  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-34680

Primerica, Inc.

(Exact name of registrant as specified in its charter)

Delaware

27-1204330

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

1 Primerica Parkway

30099

Duluth, Georgia

(ZIP Code)

(Address of principal executive offices)

Registrant's telephone number, including area code: (770) 381-1000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock, \$.01 Par Value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 28, 2013, was \$1,991,469,205. The number of shares of the registrant's Common Stock outstanding at February 14, 2014, with \$0.01 par value, was 54,966,201.

Documents Incorporated By Reference

Certain information contained in the Proxy Statement for the Company's Annual Meeting of Stockholders to be held on May 21, 2014 is incorporated by reference into Part III hereof.

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Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I</u>	<u>1</u>
<u>Item 1. Business.</u>	<u>1</u>
<u>Item 1A. Risk Factors.</u>	<u>20</u>
<u>Item 1B. Unresolved Staff Comments.</u>	<u>34</u>
<u>Item 2. Properties.</u>	<u>34</u>
<u>Item 3. Legal Proceedings.</u>	<u>34</u>
<u>Item 4. Mine Safety Disclosures.</u>	<u>34</u>
<u>Item X. Executive Officers of the Registrant.</u>	<u>34</u>
 <u>PART II</u>	 <u>36</u>
<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.</u>	<u>36</u>
<u>Item 6. Selected Financial Data.</u>	<u>38</u>
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	<u>40</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk.</u>	<u>64</u>
<u>Item 8. Financial Statements and Supplementary Data.</u>	<u>66</u>
<u>Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.</u>	<u>104</u>
<u>Item 9A. Controls and Procedures.</u>	<u>104</u>
<u>Item 9B. Other Information.</u>	<u>106</u>
 <u>PART III</u>	 <u>107</u>
<u>Item 10. Directors, Executive Officers and Corporate Governance.</u>	<u>107</u>
<u>Item 11. Executive Compensation.</u>	<u>107</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.</u>	<u>108</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence.</u>	<u>108</u>
<u>Item 14. Principal Accounting Fees and Services.</u>	<u>108</u>
 <u>PART IV</u>	 <u>109</u>
<u>Item 15. Exhibits, Financial Statement Schedules.</u>	<u>109</u>
 <u>Signatures</u>	 <u>123</u>

Table of Contents

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Investors are cautioned that certain statements contained in this report as well as some statements in periodic press releases and some oral statements made by our officials during our presentations are “forward-looking” statements. Forward-looking statements include, without limitation, any statement that may project, indicate or imply future results, events, performance or achievements, and may contain the words “expect”, “intend”, “plan”, “anticipate”, “estimate”, “believe”, “will be”, “will continue”, “will likely result”, and similar expressions, or future conditional verbs such as “may”, “will”, “should”, “would”, and “could.” In addition, any statement concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible actions taken by us or our subsidiaries are also forward-looking statements. These forward-looking statements involve external risks and uncertainties, including, but not limited to, those described under the section entitled “Risk Factors” included herein. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to a variety of risks and uncertainties, many of which are beyond the control of our management team. All forward-looking statements in this report and subsequent written and oral forward-looking statements attributable to us, or to persons acting on our behalf, are expressly qualified in their entirety by these risks and uncertainties. These risks and uncertainties include, among others:

- our failure to continue to attract and license new recruits, retain sales representatives, or license or maintain the licensing of our sales representatives;
- changes to the independent contractor status of our sales representatives;
- our or our sales representatives’ violation of, or non-compliance, with laws and regulations;
- our or our sales representatives’ failure to protect the confidentiality of client information;
- differences between our actual experience and our expectations regarding mortality, persistency, expenses and investment yields as reflected in the pricing for our insurance policies;
- the occurrence of a catastrophic event that causes a large number of premature deaths of our insureds;
- changes in federal and state legislation and regulation, including other legislation or regulation that affects our insurance and investment product businesses;
- our failure to meet risk-based capital standards or other minimum capital or surplus requirements;
- a downgrade or potential downgrade in our insurance subsidiaries’ financial strength ratings or in the investment grade credit ratings for our senior unsecured debt;
- the effects of credit deterioration and interest rate fluctuations on our invested asset portfolio;
- incorrectly valuing our investments;
- inadequate or unaffordable reinsurance or the failure of our reinsurers to perform their obligations;
- the failure of, or legal challenges to, the support tools we provide to our sales force;
- heightened standards of conduct or more stringent licensing requirements for our sales representatives;
- inadequate policies and procedures regarding suitability review of client transactions;
- the inability of our subsidiaries to pay dividends or make distributions;
- our ability to generate and maintain a sufficient amount of working capital;
- our non-compliance with the covenants of our senior unsecured debt;
- legal and regulatory investigations and actions concerning us or our sales representatives;
- the loss of key personnel;
- the failure of our information technology systems, breach of our information security or failure of our business continuity plan; and
- fluctuations in Canadian currency exchange rates.

Developments in any of these areas could cause actual results to differ materially from those anticipated or projected or cause a significant reduction in the market price of our common stock.

The foregoing list of risks and uncertainties may not contain all of the risks and uncertainties that could affect us. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this report may not in fact occur. Accordingly, undue reliance should not be placed on these statements. We undertake no obligation to publicly update or revise any forward-looking statements as a result of new information, future events or otherwise, except as otherwise required by law.



Table of Contents

PART I

ITEM 1. BUSINESS.

Primerica, Inc. ("Primerica", "we", "us" or the "Parent Company") is a leading distributor of financial products to middle income households in the United States and Canada with approximately 95,600 licensed sales representatives at December 31, 2013. We assist our clients in meeting their needs for term life insurance, which we underwrite, and mutual funds, annuities and other financial products, which we distribute primarily on behalf of third parties. We insured more than 4.3 million lives and maintained approximately two million investment accounts on behalf of our clients at December 31, 2013. Our distribution model uniquely positions us to reach underserved middle income consumers in a cost effective manner and has proven itself in both favorable and challenging economic environments. Our mission is to serve middle income families by helping them make informed financial decisions and providing them with a strategy and means to gain financial independence. Our distribution model is designed to:

Address our clients' financial needs. Our sales representatives primarily use our proprietary financial needs analysis tool ("FNA") and an educational approach to demonstrate how our products can assist clients to provide financial protection for their families, save for their retirement and other needs, and manage their debt. Typically, our clients are the friends, family members and personal acquaintances of our sales representatives. Meetings are generally held in informal, face-to-face settings, usually in the clients' homes.

Provide a business opportunity. We provide an entrepreneurial business opportunity for individuals to distribute our financial products. Low entry costs and the ability to begin part-time allow our sales representatives to supplement their income by starting their own independent businesses without incurring significant start-up costs or leaving their current jobs. Our unique compensation structure, technology, training and back-office processing are designed to enable our sales representatives to successfully grow their independent businesses.

Corporate Structure

We conduct our core business activities in the United States through three principal entities, all of which are direct or indirect wholly owned subsidiaries of the Parent Company:

Primerica Financial Services, Inc. ("PFS"), our general agency and marketing company;

Primerica Life Insurance Company ("Primerica Life"), our principal life insurance underwriting company; and

PFS Investments Inc. ("PFS Investments"), our investment and savings products company, broker-dealer and registered investment advisor.

Primerica Life is domiciled in Massachusetts, and its wholly owned subsidiary, National Benefit Life Insurance Company ("NBLIC"), is a New York life insurance underwriting company.

We conduct our core business activities in Canada through three principal entities, all of which are indirect wholly owned subsidiaries of the Parent Company:

Primerica Life Insurance Company of Canada ("Primerica Life Canada"), our Canadian life insurance underwriting company;

PFSL Investments Canada Ltd. ("PFSL Investments Canada"), our Canadian licensed mutual fund dealer; and

PFSL Fund Management Ltd. ("PFSL Fund Management"), our Canadian investment funds manager.

Primerica, Inc. was incorporated in the United States as a Delaware corporation in October 2009 to serve as a holding company for the Primerica businesses (collectively, the "Company"). Our businesses, which prior to April 1, 2010 were wholly owned indirect subsidiaries of Citigroup Inc. ("Citigroup"), were transferred to us by Citigroup on April 1, 2010 in a reorganization pursuant to which we completed an initial public offering in April 2010 (the "IPO"). On March 31, 2010, we entered into certain reinsurance transactions with affiliates of Citigroup (the "Citigroup reinsurers") and ceded between 80% and 90% of the risks and rewards of our term life insurance policies that were in force at year-end 2009.

Our Clients

Our clients are generally middle income consumers, which we define as households with \$30,000 to \$100,000 of annual income. According to the 2012 U.S. Census Bureau Current Population Survey, the latest period for which data is available, approximately 50% of U.S. households fall in this range. We believe that we understand the financial needs of the middle income segment well:

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They have inadequate or no life insurance coverage. Individual life insurance sales in the United States declined from 12.5 million policy sales in 1975 to 6.2 million policy sales in 2012, the latest period for which data is available, according to the Life Insurance Marketing and Research Association International, Inc. ("LIMRA"), a

## Table of Contents

worldwide association of insurance and financial services companies. We believe that term life insurance, which we have provided to middle income clients for many years, is generally the best option for them to meet their life insurance needs.

They need help saving for retirement and other personal goals. Middle income families continually find it challenging to save for retirement and other goals. By developing personalized savings programs for our clients using our proprietary FNA and offering a wide range of mutual funds, annuities, managed accounts and segregated fund products sponsored and managed by reputable firms, our sales representatives are well equipped to help clients develop long-term savings plans to address their financial needs.

They need to reduce their consumer debt. Many middle income families have numerous debt obligations from credit cards, auto loans, and home mortgages. We help our clients address these financial burdens by providing personalized client-driven debt resolution techniques and third party referrals that can help them reduce and ultimately pay off their debts.

They prefer to meet face-to-face when considering financial products. Historically, middle income consumers have indicated a preference to meet face-to-face when considering financial products or services. As such, we have designed our business model to address this preference in a cost-effective manner.

### Our Distribution Model

Our distribution model, which is based on a traditional insurance agency model and borrows aspects from franchising and direct sales, is designed to reach and serve middle income consumers efficiently through direct selling to customers by our sales representatives. Key characteristics of our unique distribution model include:

**Independent entrepreneurs:** Our sales representatives are independent contractors building and operating their own businesses. This business-within-a-business approach means that our sales representatives are entrepreneurs who take responsibility for selling products, recruiting sales representatives, setting their own schedules and managing and paying the expenses associated with their sales activities, including office rent and administrative overhead, with minimal start-up costs.

**Part-time opportunity:** By offering a flexible part-time opportunity, we are able to attract a significant number of recruits who desire to earn supplemental income and generally concentrate on smaller-sized transactions typical of middle income consumers. Our sales representatives distribute our products directly to consumers, and therefore our business opportunity does not require recruits to purchase and resell our products. Our sales representatives are able to join our sales force at minimal expense, and they receive technological support, pre-licensing training and licensing examination preparation programs. Virtually all of our sales representatives begin selling our products on a part-time basis, which enables them to hold jobs while exploring an opportunity with us.

**Incentive to build distribution:** When a sale is made, the selling representative receives a commission, as does the representative who recruited and supervises him or her, which we refer to as override compensation. Override compensation is paid through several levels of the selling representative's recruitment and supervisory organization. This structure motivates existing sales representatives to grow our sales force and provides them with commission income from the sales completed by their recruits.

**Sales force leadership:** A sales representative who has built a successful organization and has obtained his or her life insurance license can achieve the sales designation of Regional Vice President ("RVP"), which entitles him or her to earn higher compensation and bonuses. RVPs are independent contractors who open and operate offices for their sales organizations and devote their full attention to their Primerica businesses. RVPs also support and monitor the part-time sales representatives on whose sales they earn override commissions in compliance with applicable regulatory requirements. RVPs' efforts to expand their businesses are a primary driver of our success.

**Innovative compensation system:** We have developed an innovative system for compensating our independent sales force that is contingent upon product sales. We advance to our sales representatives a significant portion of their insurance commissions upon their submission of an insurance application and the first month's premium payment. In addition to being a source of motivation, this upfront payment provides our sales representatives with immediate cash flow to offset costs associated with originating the business. In addition, monthly production bonuses are paid to RVPs whose downline sales organizations meet certain sales levels. With compensation tied to sales activity, our compensation approach accommodates varying degrees of individual productivity, which allows us to effectively use



a large group of part-time sales representatives while providing a variable cost structure. In addition, we incentivize our RVPs with equity compensation on a quarterly basis, which aligns their interests with those of our stockholders. Large, dynamic sales force: Members of our sales force primarily serve their friends, family members and personal acquaintances through individually driven networking activities. We believe that this warm market approach is an effective way to distribute our products because it facilitates face-to-face interaction initiated by a

2

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## Table of Contents

trusted acquaintance of the prospective client, which is difficult to replicate using other distribution approaches. Due to the large size of our sales force and our active recruiting of new sales representatives, our sales force is able to continually access an expanding base of prospective clients without engaging costly media channels.

**Motivational culture:** In addition to the motivation for our sales representatives to achieve financial success, we seek to create a culture that inspires and rewards our sales representatives for their personal successes and those of their sales organizations through sales force recognition events and contests. We also use in-house television broadcasts and local, regional and national meetings to inform and teach our sales representatives, as well as facilitate camaraderie and the exchange of ideas across the sales force organization. These initiatives encourage and empower our sales representatives to develop their own successful sales organizations as part of Primerica.

### **Structure and Scalability of Our Sales Force**

New sales representatives are recruited by existing sales representatives. When these new recruits join our sales force, they are assigned an upline relationship with the sales representative who recruited them and with the recruiting sales representative's respective upline RVP organization. As new sales representatives are successful in recruiting other sales representatives, they begin to build their own organization of sales representatives who become their downline sales representatives. We encourage our sales representatives to bring in new recruits to build their own sales organizations, enabling them to earn override commissions on sales made by members of their downline organization. While the substantial majority of our sales representatives are part-time, approximately 4,400 sales representatives served as full-time RVPs at December 31, 2013. RVPs establish and maintain their own offices, which we refer to as field offices. Additionally, they are responsible for funding the costs of their administrative staff, marketing materials, travel and training and certain exclusive recognition events for the sales representatives in their respective downline organizations. Field offices provide a location for conducting recruiting meetings, training events and sales-related meetings, disseminating our Internet-streamed TV programming, conducting compliance functions, and housing field office business records.

Our sales-related expenses are largely variable costs that fluctuate with product sales volume. Sales-related expenses consist primarily of sales commissions and incentive programs for our sales representatives, as well as costs associated with information technology, compliance, administrative activities, sales management, and training.

With support provided by our home office staff, RVPs play a major role in training, motivating and monitoring our sales representatives. Because the sales representative's compensation grows with the productivity of his or her downline organization, our distribution model provides financial rewards to sales representatives who successfully develop, support and monitor productive sales representatives. Furthermore, we have developed proprietary tools and technology to enable our RVPs to reduce the time spent on administrative responsibilities associated with their sales organizations so they can devote more time to the sales and recruiting activities that drive our growth. We believe that our tools and technology, coupled with our bonus and equity incentive award programs, further incentivize our sales representatives to become RVPs.

To encourage our most successful RVPs to build large downline sales organizations that generate strong sales volumes, we established the Primerica Ownership Program to provide qualifying RVPs a contractual right, upon meeting certain criteria, to sell their Primerica businesses to another RVP or transfer it to a qualifying family member. Both the structure of our sales force and the capacity of our support capabilities provide us with a high degree of scalability as we grow our business. Our support systems and technology are capable of supporting a large sales force and a high volume of transactions. In addition, by sharing training and compliance activities with our RVPs, we are able to grow without incurring proportionate overhead expenses.

### **Recruitment of Sales Representatives**

The recruitment of sales representatives is undertaken by our existing sales representatives, who identify prospects and share with them the benefits of associating with our organization. Our sales representatives showcase our organization as dynamic and capable of improving lives by demonstrating the success achieved by the members of our sales force.

After the initial contact, prospective recruits typically are invited to an opportunity meeting, which is conducted by an RVP. The objective of an opportunity meeting is to inform prospective recruits about our mission and their opportunity to join our sales force. At the conclusion of each opportunity meeting, prospective recruits are asked to

complete an application and pay a \$99 fee to commence their pre-licensing training and licensing examination preparation programs, as well as to cover their licensing exam registration costs, which are provided by the Company generally at no additional charge. Recruits are not obligated to purchase any of our products in order to become sales representatives, though they may

3

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Table of Contents

elect to purchase our term life insurance to provide financial protection for their families or our investment and savings products to save for their retirement and other needs.

Our sales force is our sole distribution channel for our term life insurance and investment and savings products, and our success depends on the ongoing recruitment, training and licensing of new sales representatives. Recruits may become our clients or provide us with access to their friends, family members and personal acquaintances. As a result, we continually work to improve our systematic approach to recruiting and training new sales representatives so they can obtain the licensing and skills necessary for success.

Similar to other distribution systems that rely upon part-time sales representatives and typical of the life insurance industry in general, we experience wide disparities in the productivity of individual sales representatives. Many new recruits do not get licensed, mainly due to the time commitment required to obtain licenses and various regulatory hurdles. Many of our licensed sales representatives are only marginally active in our business. As a result, we plan for this disparate level of productivity and view a continuous recruiting cycle as a key component of our distribution model. Our distribution model is designed to address the varying productivity associated with part-time sales representatives by paying production-based compensation, emphasizing recruiting, and continuing initiatives to address barriers to licensing new recruits. By providing override commissions to sales representatives on the sales generated by their downline sales organization, our compensation structure aligns the interests of our sales representatives with our interests in recruiting new representatives and creating sustainable sales production.

The following table provides information on new recruits and sales representatives:

	Year ended December 31,		
	2013	2012	2011
Number of new recruits	186,251	191,752	244,756
Number of newly insurance-licensed sales representatives	34,155	34,425	33,711
Number of insurance-licensed sales representatives, at period end	95,566	92,373	91,176
Average number of insurance-licensed sales representatives during period	93,086	90,981	91,855

We define new recruits as individuals who have submitted an application to join our sales force, together with payment of a \$99 fee to commence their pre-licensing training. We may not approve certain new recruits to join our sales force, and others elect to withdraw from our sales force prior to becoming active in our business.

On average, it requires approximately three months for our sales representatives to complete the necessary applications and pre-licensing coursework and to pass the applicable state or provincial examinations to obtain a license to sell our term life insurance products. As a result, individuals recruited to join our sales force within a given fiscal period may not become licensed sales representatives until a subsequent period.

#### Sales Force Motivation, Training and Communication

Motivating, training and communicating with our sales force are critical to our success and that of our sales force.

**Motivation.** Through our proven system of sales force recognition events, contests, and communications, we provide incentives that drive our results. Motivation is driven in part by our sales representatives' belief that they can achieve higher levels of financial success by building their own businesses as Primerica sales representatives. The opportunity to help underserved middle income households address financial challenges is also a significant source of motivation for many of our sales representatives, as well as for our management and home office employees.

We motivate our sales representatives to succeed in our business by:

- compensating our sales representatives for product sales by them and their downline organizations;
- helping our sales representatives learn financial fundamentals so they can confidently and effectively assist our clients;
- reducing the administrative burden on our sales force, which allows them to devote more of their time to building a downline organization and selling products; and
- creating a culture in which sales representatives are encouraged to achieve goals through the recognition of their sales and recruiting achievements, as well as those of their sales organizations.

To help our sales representatives understand that they are part of a larger enterprise than their field office, we conduct numerous local, regional and national meetings. These meetings inform and motivate our sales force. In June 2013, we

held our biennial international convention at the Georgia Dome in Atlanta. Approximately 35,000 people attended our biennial international convention at their own expense, which we believe further demonstrates their commitment to our organization and mission.

4

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## Table of Contents

**Training.** Our sales representatives must hold licenses to sell most of our products. Our in-house insurance licensing program offers a significant number of classroom, online and self-study insurance pre-licensing courses to meet applicable state and provincial licensing requirements and prepare recruits to pass applicable licensing exams. For those representatives who wish to sell our investment and savings products, we contract with third-party training firms to conduct exam preparation and also offer supplemental training tools.

We provide courses, tools and incentives to help new recruits become licensed sales representatives. For example, we offer, generally at no cost to our sales force, a personalized study plan, a variety of review classes, and life insurance study and exam review videos and audios. With a subscription to our secure Internet website, new recruits gain access to an online exam simulator, a tool that uses a student's prior performance to provide simulated exams that focus on individual study needs. We also provide an online interactive tool that provides new recruits with a step-by-step guide to building their Primerica businesses.

Other internal training program opportunities include sales, management skills, business ownership, product and compliance training modules and videos. Additionally, many RVPs conduct sales training either on nights or weekends, providing new recruits a convenient opportunity to attend training outside of weekday jobs or family commitments.

**Communication.** We communicate with our sales force through multiple channels, including:

Primerica Online ("POL"), which is our secure Internet website designed to be a support system for our sales force. POL provides sales representatives with access to their Primerica e-mail, bulletins and alerts, business tracking tools and real-time updates on their pending life applications and new recruits. We also use POL to provide real-time recognition of sales representatives' successes and scoreboards for sales force production, contests and trips. In addition, POL is a gateway to our product providers and product support. A substantial majority of our sales representatives subscribe to POL. Subscribers generally pay a \$25 monthly fee to subscribe to POL, which helps cover the cost of maintaining this support system.

our in-house TV network, which is broadcast by Internet-streaming video. We create original broadcasts and videos that enable senior management to update our sales force and provide training and motivational presentations. We broadcast a live weekly program hosted by home office management and selected RVPs that focuses on new developments and provides motivational messages to our sales force. We also broadcast a training-oriented program to our sales force on a weekly basis and profile successful sales representatives, allowing these individuals to educate and train our other sales representatives by sharing their secrets for success.

our publications department, which produces materials to support, motivate, and inform our sales force. We sell recruiting materials, sales pieces, business cards and stationery and provide total communications services, including web design, print presentations, graphic design and script writing. We also produce a weekly mailing that includes materials promoting our current incentives, as well as the latest news about our product offerings.

### Sales Force Support and Tools

Our information systems and technology are designed to support a sales and distribution model that relies on a large group of predominantly part-time sales representatives and assist them in building their own businesses. We provide our sales representatives with sales tools that allow both new and experienced sales representatives to offer financial information and products to their clients. The most significant of these tools are:

**Our Financial Needs Analysis:** Our FNA is a proprietary, web-based, needs-based analysis tool. The FNA gives our sales representatives the ability to collect and synthesize client financial data and develop a financial analysis for the client that is easily understood. The FNA, while not a financial plan, provides our clients with a personalized explanation of how our products work and introduces prudent financial concepts, such as regular saving and accelerating the repayment of high cost credit card debt to help them reach their financial goals. The FNA provides clients with a snapshot of their current financial position and identifies their life insurance, savings and debt resolution needs.

**Our Point-of-Sale Application Tool:** Our web-based, point-of-sale software, TurboApps, is an internally developed system that streamlines the application process for our insurance products. This application populates client information from the FNA to eliminate redundant data collection and provides real-time feedback to eliminate incomplete and illegible applications. Integrated with our paperless field office management system described below

and with our home office systems, TurboApps allows our RVPs and us to realize the efficiencies of straight-through-processing of application data and other information collected on our sales representatives' mobile devices, which results in expedited processing of our life insurance product sales. We also leverage the TurboApps concept with our investment partners to process U.S. mutual fund and annuity product sales. We developed web-based versions of TurboApps to take advantage of the proliferation of portable devices and wireless Internet connections, including smartphones, laptop computers and tablets.

5

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## Table of Contents

**Virtual Base Shop:** In an effort to ease the administrative burden on RVPs and simplify sales force operations, we make available to RVPs a secure Internet-based paperless field office management system as part of the POL subscription. This virtual office is designed to automate the RVP's administrative responsibilities and can be accessed by all sales representatives in an RVP's immediate downline sales organization, which we refer to as his or her base shop.

**Other Tools:** We utilize proprietary and third-party products, including web-based software and mobile devices and applications, for more efficient application processing, client support, and sales force administration, among other uses. For example, our Primerica App for Android and iOS are broadly used by our sales force for managing contacts, generating client proposals, and receiving and sending communications. In addition to our Primerica App, we continue to develop mobile applications for our web-based software as the use of mobile devices by our sales representatives increases.

We also make available other technology to support our sales force in managing their businesses and in serving our clients, including:

- a toll-free sales support call center to address questions and assist with paperwork, underwriting and licensing;
- a tele-underwriting process that allows clients to provide needed medical information without disclosing it to our sales representatives; and

- POL for tracking the status of pending life insurance applications and the progress of their new recruits in their training and licensing efforts.

### Performance-Based Compensation Structure

Our compensation system is rooted in our origin as an insurance agency. Our sales representatives can earn compensation in multiple ways, including:

- sales commissions and fees based on their personal sales and client assets under management;
- override commissions based on sales by sales representatives and fees based on client assets under management in their downline organizations;
- bonuses and other compensation, including equity-based compensation, based on their own sales performance, the aggregate sales performance of their downline organizations and other criteria; and
- participation in our contests and other incentive programs.

Our compensation system pays a commission to the representative who sells the product and override commissions to several levels of the selling representative's upline organization. With respect to term life insurance sales, commissions are calculated based on the total first-year premium (excluding policy fee) for all policies and riders up to a maximum premium. To motivate our sales force, we compensate sales representatives for term life insurance product sales as quickly as possible. We advance a majority of the insurance commission upon the submission of a completed application and the first month's premium payment. As the client makes his or her premium payments, the commission is earned by the sales representative and the commission advance is recovered by the Company. If premium payments are not made by the client and the policy terminates, any outstanding advance commission is charged back to the sales representative. The chargeback would equal that portion of the advance that was made, but not earned, by the sales representative because the client did not pay the full premium for the period of time for which the advance was made to the sales representative. Chargebacks, which occur in the normal course of business, may be recovered by reducing any cash amounts otherwise payable to the sales representative.

Sales representatives and their upline organizations are contractually obligated to repay us any commission advances that are ultimately not earned due to the underlying policy lapsing prior to the full commission being earned.

Additionally, we hold back a portion of the commissions earned by our sales representatives as a reserve out of which we may recover chargebacks. The amounts held back are referred to as deferred compensation account commissions ("DCA commissions"). DCA commissions are available to reduce amounts owed to the Company by sales representatives. DCA commissions also provide an upline sales representative with a cushion against the chargeback obligations of their downline sales representatives. DCA commissions, unless applied to amounts owed, are ultimately released to sales representatives.

We pay most term life insurance commissions during the first policy year. One of our term riders provides for coverage increases after the first year. For such riders, we pay commissions after the first year only for premium



increases related to the increased coverage. Additionally, we pay renewal commissions on some older in-force policies. At the end of the policy durations, we pay compensation for policy continuations and exchanges. We also pay compensation to our sales force for the sale of mutual funds, annuities, prepaid legal services, the referral of customers seeking auto and home insurance and other financial products. For most mutual funds (non-managed

## Table of Contents

accounts) and annuity products, commissions are paid both on the sale and on the value of assets under management and are calculated based on the dealer reallowance and trail compensation actually paid to us. For managed account mutual fund products, fees earned are based on the total of assets under management and represent a portion of the annual fee we receive as compensation for as long as we retain the account. Prepaid legal services commissions and credit information product commissions are paid in fixed amounts on the sale of the respective product. For auto and homeowners' insurance products, fees are paid for referrals that result in completed applications. We pay our sales representatives in Canada a sales commission on segregated fund sales and a quarterly fee based on clients' asset values. We also pay commissions to our sales force related to certain other financial products, which are calculated based on the type of product sold or referred.

We pay bonuses and other incentive compensation for the sale of certain products. Bonuses are paid to the RVPs or to selected override levels, or both, for achieving specified supervising production levels for the sale of term life insurance, investment and savings products and other distributed products.

In addition to these methods of compensation, we use a quarterly compensation program under which RVPs can earn equity awards based on various supervising production criteria. Effective deployment of these programs allows us to align the interests of our sales force with those of our stockholders.

### Sales Force Licensing

The states, provinces and territories in which our sales representatives operate generally require our sales representatives to obtain and maintain licenses to sell our insurance and securities products, requiring our sales representatives to pass applicable examinations. Our sales representatives may also be required to maintain licenses to sell certain of our other financial products. To encourage new recruits to obtain their life licenses, we either pay directly or reimburse the sales representative for certain licensing-related fees and expenses once he or she passes the applicable exam and obtains the applicable life insurance license.

To sell insurance products, our sales representatives must be licensed by their resident state, province or territory and by any other state, province or territory in which they do business. In most states, our sales representatives must be appointed by our applicable insurance subsidiary.

To sell mutual funds and variable annuity products, our U.S. sales representatives must be registered with the Financial Industry Regulatory Authority ("FINRA") and hold the appropriate license(s) designated by each state in which they sell securities products, as well as be appointed by the annuity underwriter in the states in which they market annuity products. Our representatives must meet all state and regulatory requirements and be designated as an investment advisor representative in order to sell our managed account product.

Our Canadian sales representatives selling mutual fund products are required to be licensed by the securities commissions in the provinces and territories in which they sell mutual fund products. Our Canadian sales representatives who are licensed to sell our insurance products do not need any further licensing to sell our segregated funds products in Canada. In Canada, sales representatives who refer clients to a mortgage lender do not have to be licensed as a mortgage broker.

### Supervision and Compliance

To ensure compliance with various federal, state, provincial and territorial legal requirements, we and our RVPs share responsibility for maintaining an overall compliance program that involves compliance training and supporting and monitoring the activities of our sales representatives. We work with our RVPs to develop appropriate compliance procedures and systems.

Generally, all RVPs must obtain a principal license (FINRA Series 26 in the United States and Branch Manager license in Canada), and, as a result, they assume supervisory responsibility over the activities of their downline sales organizations. Additional supervision is provided by approximately 490 Offices of Supervisory Jurisdiction ("OSJs"), which are run by select RVPs who receive additional compensation for assuming additional responsibility for supervision and compliance monitoring across all product lines. OSJs are required to periodically inspect our field offices and report to us any compliance issues they observe. Our Field Supervision Department regularly assists the OSJs and communicates compliance requirements to them to ensure they properly discharge their supervisory responsibilities. In addition, our Compliance Department regularly runs surveillance reports designed to monitor the activity of our sales force and investigates any unusual or suspicious activity identified during these reviews or during

periodic inspections of our OSJ offices.

All of our sales representatives are required to participate in our annual compliance meeting, a program administered by our senior management and our legal and compliance staff at which we provide a compliance training overview across all product lines and require the completion of compliance checklists by each of our licensed sales representatives for each

7

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Table of Contents

product he or she offers. Additionally, our sales representatives receive periodic compliance newsletters regarding new compliance developments and issues of special significance. Furthermore, the OSJs are required to complete an annual training seminar that focuses on securities compliance and field supervision.

Our Field Audit Department regularly conducts audits of all sales representative offices, including scheduled and no-notice audits. Our policy is to conduct approximately 50% of the field office audits on a no-notice basis. The Field Audit Department reviews all regulatory-required records that are not maintained at our home office. Any compliance deficiencies noted in the audit must be corrected, and we carefully monitor all corrective action. Field offices that fail an audit are subject to a follow-up audit in 150 days. Audit deficiencies are addressed through a progressive disciplinary structure that includes fines, reprimands, probations and terminations.

**Our Products**

Reflecting our philosophy of helping middle income clients with their financial product needs and ensuring compatibility with our distribution model, our products generally meet the following criteria:

**Consistent with sound individual finance principles:** Products must be consistent with good personal finance principles for middle income consumers, such as financial protection, minimizing expenses, encouraging long-term savings and reducing debt.

**Designed to support multiple client goals:** Products are designed to address and support a broad range of financial goals rather than compete with or cannibalize each other. For example, term life insurance does not compete with mutual funds because term life has no cash value or investment element.

**Ongoing needs based:** Products are designed to meet the ongoing financial needs of many middle income consumers. This long-term approach bolsters our relationship with our clients by allowing us to continue to serve them as their financial needs evolve.

**Easily understood and sold:** Products must be appropriate for distribution by our sales force, which requires that the application and approval process must be simple to understand and explain, and the likelihood of approval must be sufficiently high to justify the investment of time by our sales representatives.

We use three operating segments to organize, evaluate and manage our business: Term Life Insurance, Investment and Savings Products, and Corporate and Other Distributed Products. See “Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations” and Note 2 (Segment Information) to our consolidated financial statements included elsewhere in this report for certain financial information regarding our operating segments and the geographic areas in which we operate.

Table of Contents

The following table provides information on our principal products and the principal sources thereof by operating segment as of December 31, 2013.

Operating Segment	Principal Products	Principal Sources of Products (Applicable Geographic Territory)
Term Life Insurance	Term Life Insurance	Primerica Life (U.S. (except New York), the District of Columbia and certain territories) NBLIC (New York) Primerica Life Canada (Canada)
Investment and Savings Products	Mutual Funds and Certain Retirement Plans	American Century Investments (U.S.)
		American Funds (U.S.)
		Franklin Templeton (U.S.)
		ING Life Insurance and Annuity Company (U.S.)
		Invesco (U.S.)
		Legg Mason Global Asset Management (U.S.)
		Pioneer Investments (U.S.)
		AGF Funds (Canada) Concert™ Funds (Canada) Mackenzie Investments (Canada)
	Managed Accounts	Lockwood Advisors (U.S.)
	Variable Annuities	Lincoln National Life Insurance Company and its affiliates (U.S.) MetLife Investors and its affiliates (U.S.)
	Fixed Indexed Annuities	Lincoln National Life Insurance Company and its affiliates (U.S.)
	Fixed Annuities	MetLife Investors USA Life Insurance Company and its affiliates (U.S.)
	Segregated Funds	Primerica Life Canada (Canada)
Corporate and Other Distributed Products	Credit Information Services	Equifax Consumer Services LLC (U.S. and Canada)
	Long-Term Care Insurance	Genworth Life Insurance Company and its affiliates (U.S.) Various insurance companies, as offered through LTCI Partners, LLC (U.S.)
	Prepaid Legal Services	Pre-paid Legal Services, Inc. (U.S. and Canada)
	Supplemental Health and Accidental Death & Disability Insurance	The Edge Benefits Inc. (Canada)
	Auto and Homeowners'	Various insurance companies, as offered through

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Insurance <sup>(1)</sup>	Answer Financial, Inc. (U.S.)
Debt Resolution Products <sup>(1)</sup>	Freedom Financial Network, LLC (U.S.)
Mortgage Loan Referrals <sup>(1)</sup>	B2B Bank (Canada)
Student Life Insurance	NBLIC (U.S., except Alaska, Hawaii, Montana, Washington and the District of Columbia)
Short-Term Disability Benefit Insurance	NBLIC (New York and New Jersey)

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<sup>(1)</sup> Referrals only.

Table of Contents

## Term Life Insurance Products

Through our three life insurance subsidiaries – Primerica Life, NBLIC and Primerica Life Canada – we offer term life insurance to clients in the United States, its territories, the District of Columbia and Canada. In 2012, the latest period for which data is available, we were the largest provider of individual term life insurance in the United States based on the amount of in-force premiums collected, according to LIMRA.

We believe that term life insurance is a better alternative for middle income clients than cash value life insurance.

Term life insurance provides a guaranteed death benefit if the insured dies during the fixed coverage period of an in-force policy, thereby providing financial protection for his or her named beneficiaries in return for the periodic payment of premiums. Term insurance products, which are sometimes referred to as pure protection products, have no savings or investment features. By buying term life insurance rather than cash value life insurance, a policyholder initially pays a lower premium and, as a result, would have funds available to invest for retirement and other needs.

We also believe that a person's need for life insurance is inversely proportional to that person's need for retirement savings, a concept we refer to as the theory of decreasing responsibility. Young adults with children, new mortgages and other obligations need to buy higher amounts of insurance to protect their family from the loss of future income resulting from the death of a primary bread winner. With its lower initial premium, term life insurance lets young families buy more coverage for their premium dollar when their needs are greatest and still have the ability to have funds for their retirement and other savings goals.

We design our term life insurance products to be easily understood by, and meet the needs of, our clients. Clients purchasing our term life insurance products generally seek stable, longer-term income protection products for themselves and their families. In response to this demand, we offer term life insurance products with level premium coverage periods that range from 10 to 35 years and a wide range of coverage face amounts. Additionally, certain term life insurance policies may be customized through the addition of riders to provide coverage for specific protection needs, such as mortgage and college expense protection. Policies remain in force until the expiration of the coverage period or until the policyholder ceases to make premium payments and terminates the policy. Premiums are guaranteed for policies issued in the United States for the initial term period, up to a maximum of 20 years. After 20 years, we have the right to raise the premium, subject to limits provided for in the applicable policy. In Canada, the amount of the premium is guaranteed for the entire term of the policy.

One of the innovative term life insurance products that we offer is TermNow, which is our rapid issue term life product that provides for face amounts of \$250,000 (\$300,000 in Canada) and below. TermNow allows a sales representative to take an online application and, with the client's permission, allows the Company to access databases, including Medical Information Bureau ("MIB") data in the United States and Canada and prescription drug and motor vehicle records in the United States, as part of the underwriting process. The Company uses this data and the client's responses to application questions to determine any additional underwriting requirements. Results of these processes are reported in real time to our underwriting system, which then decides whether or not to rapidly issue a policy.

The average face amount of our in-force policies issued in 2013 was approximately \$246,800. The following table sets forth selected information regarding our term life insurance product portfolio:

	Year ended December 31,		
	2013	2012	2011
Life insurance issued:			
Number of policies issued	214,617	222,558	237,535
Face amount issued (in millions)	\$67,783	\$68,053	\$73,146
	December 31,		
	2013	2012	2011
Life insurance in force:			
Number of policies in force	2,320,824	2,317,679	2,316,131
Face amount in force (in millions)	\$674,868	\$670,412	\$664,955

Pricing and Underwriting. We believe that effective pricing and underwriting are significant drivers of the profitability of our life insurance business and we have established our pricing assumptions to be consistent with our

underwriting practices. We set pricing assumptions for expected claims, lapses, investment returns and expenses based on our experience and other factors. These other factors include:

expected changes from relevant experience due to changes in circumstances, such as (i) revised underwriting procedures affecting future mortality and reinsurance rates, (ii) new product features, and (iii) revised administrative programs affecting sales levels, expenses, and client continuation or termination of policies; and



Table of Contents

observed trends in experience that we expect to continue, such as general mortality improvement in the general population and better or worse policy persistency (the period over which a policy remains in force) due to changing economic conditions.

Under our current underwriting guidelines, we individually assess each insurable adult applicant and, in most cases, place such applicant into one of four risk classifications based on current health, medical history and other factors. Each of these four classifications (preferred plus, preferred, non-tobacco and tobacco) has specific health criteria. We may decline an applicant's request for coverage if his or her health or activities create unacceptable risks for us. Our sales representatives ask applicants a series of yes or no questions regarding the applicant's medical history. We may also consider information about the applicant from third-party sources, such as MIB, prescription drug databases, motor vehicle bureaus and physician statements. If we believe that follow up regarding an applicant's medical history is warranted, we use a third-party provider and its trained personnel to contact the applicant by telephone to obtain a more detailed medical history. The report resulting from this tele-underwriting process is electronically transmitted to us and is evaluated in our underwriting process.

To accommodate the significant volume of insurance business that we process, we and our sales force use technology to make our operations more efficient. We provide a web-based life insurance application that supports TermNow and other term life insurance products. Approximately 90% of the life insurance applications we received in 2013 were submitted electronically. Our web-based life insurance application ensures that the application is submitted error-free, collects the applicant's electronic signatures and populates the RVP's sales log. For paper applications, we use our proprietary review and screening system to automatically screen that an application meets regulatory and other requirements, as well as alert our application processing staff to any deficiencies with the application. If any deficiencies are noted, our application processing staff telephones the sales representative to obtain the necessary information. Once an application is complete, the pertinent application data is uploaded to our life insurance administrative systems, which manage the underwriting process by electronically analyzing data, recommending underwriting decisions, and communicating with the sales representative and third-party providers.

**Claims Management.** Our insurance subsidiaries processed over 14,000 life insurance benefit claims in 2013 on policies underwritten by us and sold by our sales representatives. These claims fall into three categories: death, waiver of premium (applicable to disabled policyholders who purchased a rider pursuant to which Primerica agrees to waive remaining life insurance premiums during a qualifying disability), or terminal illness. The claim may be reported by our sales representative, a beneficiary or, in the case of terminal illness, the policyholder. Following are the benefits paid by us for each category of claim:

	Year ended December 31,		
	2013	2012	2011
	(In thousands)		
Death	\$1,104,123	\$1,040,507	\$993,396
Waiver of premium	31,786	28,665	25,836
Terminal illness <sup>(1)</sup>	11,765	7,819	9,654

(1) We consider claims paid for terminal illness to be loans made to the beneficiary that are repaid to us upon death of the beneficiary from the death benefit.

In the United States, after coverage has been in force for two years, we may not contest the policy for misrepresentations in the application or the suicide of the insured. In Canada, we have a similar two-year contestability period, but we are permitted to contest insurance fraud at any time. As a matter of policy, we do not contest any coverage issued by us to replace the face amount of another insurance company's individual coverage to the extent the replaced coverage would not be contestable by the replaced company. We believe this approach helps our sales representatives sell replacement policies, as it reassures clients that claims made under their replacement policies are not more likely to be contested as to the face amount replaced. Through our claims administration system, we record, process and pay the appropriate benefit for any reported claim. Our claims system is used by our home office investigators to order medical and investigative reports from third-party providers, calculate amounts due to the beneficiary (including interest) and report payments to the appropriate reinsurance companies.

Since 2011, Primerica Life, a Massachusetts domestic insurer, has regularly consulted the Social Security Administration's Death Master File ("Death Master File") in accordance with Massachusetts Division of Insurance ("Massachusetts DOI") best practices, and NBLIC, a New York domestic insurer, has regularly consulted the Death Master File in accordance with New York State insurance requirements, to identify potential deceased policyholders for whom claims have not been presented in the normal course of business. If unreported deaths are identified, Primerica Life and NBLIC attempt to determine if a valid claim exists, to locate beneficiaries, and to pay benefits accordingly. Prior to 2011, the Company did not use the Death Master File in any aspect of its business.

## Table of Contents

**Reinsurance.** We use reinsurance primarily to reduce the volatility risk with respect to mortality. Since 1994, we have reinsured death benefits in the United States on a first dollar quota share yearly renewable term ("YRT") basis. We pay premiums to each reinsurer based on rates in the applicable agreement.

We generally reinsure 90% of all U.S. insurance policies that we underwrite, excluding coverage under certain riders, and, for all risks in excess of \$4.0 million per life of coverage, we reinsure on a case-by-case basis. With respect to our Canadian insurance policies, we previously utilized reinsurance arrangements pursuant to which we reinsured only face amounts above \$500,000 per life on an excess loss YRT basis, and, for all risk in excess of \$2.0 million per life, we reinsured on a case-by-case basis. In 2012, we began a YRT reinsurance arrangement in Canada similar to our U.S. program that reinsures 80% of the face amount for every policy sold. We also reinsure substandard cases on a facultative basis to capitalize on the extensive experience some of our reinsurers have with substandard cases. A substandard case has a level of risk that is acceptable to us, but at higher premium rates than a standard case because of the health, habits or occupation of the applicant.

While our reinsurance agreements have indefinite terms, both we and our reinsurers are entitled to discontinue any reinsurance agreement as to future policies by giving advance notice of 90 days to the other. Each reinsurer's ability to terminate coverage for existing policies is limited to circumstances such as a material breach of contract or nonpayment of premiums by us. Each reinsurer has the right to increase rates with certain restrictions. If a reinsurer increases rates, we have the right to immediately recapture the business. Either party may offset any balance due from the other party. For additional information on our reinsurance, see Note 1 (Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies) and Note 5 (Reinsurance) to our consolidated financial statements included elsewhere in this report.

**Financial Strength Ratings.** Ratings with respect to financial strength are an important factor in establishing our competitive position and maintaining public confidence in us and our ability to market our products. Ratings organizations review the financial performance and condition of most insurers and provide opinions regarding financial strength, operating performance and ability to meet obligations to policyholders. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Financial Ratings."

### **Investment and Savings Products**

We believe that middle income families have significant unmet retirement and other savings needs. Using our FNA tool, our sales representatives help our clients understand their current financial situation and how they can use time-tested financial principles, such as prioritizing personal savings, to reach their savings goals. Our products comprise basic saving and investment vehicles that seek to meet the needs of clients in all stages of life.

Through PFS, PFS Investments, Primerica Life Canada, PFSL Investments Canada, and our licensed sales representatives, we distribute and sell to our clients mutual funds, managed accounts, variable and fixed annuities, fixed indexed annuities and segregated funds. As of December 31, 2013, approximately 21,800 of our sales representatives were licensed to distribute mutual funds in the United States and Canada. As of December 31, 2013, approximately 11,400 of our sales representatives were licensed and appointed to distribute variable and fixed annuities in the United States and approximately 9,900 of our sales representatives were licensed to sell segregated funds in Canada.

**Mutual Funds.** In the United States, our licensed sales representatives primarily distribute mutual funds from the following select asset management firms: American Century Investments, American Funds, Franklin Templeton, Invesco, Legg Mason and Pioneer. We have selling agreements with each of these fund companies and a number of other fund companies. These firms have diversified product offerings, including domestic and international stock, bond and money market funds. Each firm has individual funds with long track records and each continually evaluates its fund offerings and adds new funds on a regular basis. Additionally, their product offerings reflect diversified asset classes and varied investment styles. We believe these asset management firms provide funds that meet the investment needs of our clients.

During 2013, four of these fund families (Legg Mason, Invesco, American Funds and Franklin Templeton) accounted for approximately 94% of our mutual fund sales in the United States. Legg Mason and Invesco each have large wholesaling teams that support our sales force in distributing their mutual fund products. Our selling agreements with

these firms all have indefinite terms and provide for termination at will. Each of these agreements authorizes us to receive purchase orders for shares of mutual funds or similar investments underwritten by the fund company and to sell and distribute the shares on behalf of the fund company. All purchase orders are subject to acceptance or rejection by the relevant fund company in its sole discretion. Purchase orders received by the fund company from us are accepted only at the then-applicable public offering price for the shares ordered (the net asset value of the shares plus any applicable sales charge).

In Canada, our sales representatives offer Primerica-branded Concert™ Series funds, which accounted for approximately 37% of our Canadian mutual fund product sales in 2013. Our Concert™ Series of funds consist of six different asset

Table of Contents

allocation funds with varying investment objectives ranging from fixed income to aggressive growth. Each Concert™ Series fund is a fund of funds that allocates fund assets among equity and income mutual funds of AGF Funds, a major asset management firm in Canada. The asset allocation within each Concert™ Series fund is determined on a contract basis by Legg Mason. The principal non-proprietary funds that we offer our clients in Canada are funds of AGF Funds and Mackenzie Investments. Sales of these non-proprietary funds accounted for approximately 43% of mutual fund product sales in Canada in 2013. Like our U.S. fund family list, the asset management partners we have chosen in Canada have a diversified offering of stock, bond and money market funds, including domestic and international funds with a variety of investment styles.

A key part of our investment philosophy for our clients is the long-term benefits of dollar cost averaging through systematic investing. To accomplish this, we assist our clients by facilitating monthly contributions to their investment account by bank draft against their checking accounts. As of December 31, 2013, qualified retirement plans accounted for 73% of client account assets in the United States and 78% of client account assets in Canada. Our high concentration of retirement plan accounts and our systematic savings philosophy are beneficial to us as these accounts tend to have lower redemption rates than the industry and, therefore, generate more recurring asset-based revenues.

**Managed Accounts.** PFS Investments is a registered investment advisor in the United States, and it offers a managed accounts program under a contract with Lockwood Advisors, a registered investment advisor and unit of Bank of New York Mellon. The offering consists of a mutual fund advisory program with a \$25,000 minimum initial investment. As part of our contract, Lockwood Advisors participates in the design and assists in the ongoing administration of the program, including the investment of client assets on a discretionary basis into one or more asset allocation portfolios. In contrast to our existing mutual fund and annuity business, in an advisory fee program, clients do not pay an upfront commission; rather, they pay an annual fee based on the value of the assets in their account.

**Variable Annuities.** Our U.S. licensed sales representatives also distribute variable annuities underwritten and provided by MetLife and Lincoln National Life Insurance Company and its affiliates ("Lincoln National"). Variable annuities are insurance products that enable our clients to invest in accounts with attributes similar to mutual funds, but also have benefits not found in mutual funds, including death benefits that protect beneficiaries from losses due to a market downturn and income benefits that guarantee future income payments for the life of the policyholder(s). These companies bear the insurance risk on the variable annuities that we distribute.

We are a party to a selling agreement with MetLife, which, among certain other rights, gave it the right to supply us with certain annuity and other insurance products on an exclusive basis until July 2013 and on a non-exclusive basis until July 2015. With the expiration of the exclusivity provision, we are able to enter into selling arrangements with other underwriters and have done so with Lincoln National.

**Segregated Funds.** In Canada, we offer segregated fund products, which are branded as our Common Sense Funds™, that have some of the characteristics of our variable annuity products distributed in the United States. Our Common Sense Funds™ are underwritten by Primerica Life Canada and offer our clients the ability to participate in a diversified managed investment program that can be opened for as little as C\$25. While the assets and corresponding liability (reserves) are recognized on our Consolidated Balance Sheets, the assets are held in trust for the benefit of the segregated fund contract owners and are not commingled with the general assets of the Company.

The investment objective of segregated funds is long-term capital appreciation combined with some guarantee of principal. Unlike mutual funds, our segregated fund product guarantees clients at least 75% of their net contributions (net of withdrawals) at the earlier of the date of their death or at the segregated fund's maturity date, which is selected by the client. The portfolio consists of both equities and bonds with the equity component consisting of a pool of large cap Canadian equities and the bond component consisting of Canadian federal government zero coupon treasuries. The portion of the segregated fund portfolio allocated to zero coupon treasuries are held in sufficient quantity to satisfy the guarantees payable at the maturity date of the segregated fund. As a result, our potential loss exposure is very low as it comes from the guarantees payable upon the death of the client prior to the maturity date. With the guarantee level at 75% and in light of the time until the scheduled maturity of our segregated funds contracts, we currently do not believe it is necessary to allocate any corporate capital as reserves for segregated fund contract benefits.

Many of our Canadian clients invest in segregated funds through a registered retirement savings plan (“RRSP”). An RRSP is similar to an individual retirement account, or IRA, in the United States in that contributions are made to the RRSP on a pre-tax basis and income is earned on a tax-deferred basis. Our Common Sense Funds™ are managed by AGF Funds, one of Canada's leading investment management firms, and a leading provider of our mutual fund products.

**Fixed Indexed Annuities.** We offer fixed indexed annuity products through Lincoln National. These products combine safety of principal and guaranteed rates of return with additional investment options tied to the S&P 500 Index that allow for returns that may move higher or lower based on the performance of the index. During 2013, we launched a proprietary fixed indexed annuity product underwritten by Lincoln National that includes an integrated income rider, which

Table of Contents

is tailored for income-oriented clients due to periodic increases in the guaranteed rate of return. We believe these and other fixed annuity products give both our life and securities representatives more ways to assist our clients with their retirement planning needs.

**Fixed Annuities.** We sell fixed annuities underwritten by MetLife Investors USA Insurance Company and its affiliates in the United States. Our current offering includes a fixed premium deferred annuity, a single premium immediate annuity and a longevity income guaranteed annuity. The fixed premium deferred annuity allows our clients to accumulate savings on a tax deferred basis with safety of principal and a guaranteed rate of return. The single premium immediate annuity and longevity income guaranteed annuity provide clients with income alternatives during retirement.

**Investment and Savings Products Revenue.** In the United States, we earn revenue from our investment and savings products business in three ways: commissions earned on the sale of such products; fees earned based upon client asset values; and account-based revenue. On the sale of mutual funds (non-managed accounts) and annuities, we earn a dealer reallowance or commission on new purchases as well as trail commissions on the assets held in our clients' accounts. We also receive marketing and support fees from most of our fund providers. These payments are typically a percentage of sales or a percentage of the clients' total asset values, or a combination of both.

We perform custodial services and receive fees on a per-account basis for serving as a non-bank custodian for certain of our clients' retirement plan accounts for certain of the funds offered in the United States. We also perform recordkeeping services for some of our select U.S. fund companies and receive compensation on a per-account basis for these services. Because the total amount of these fees fluctuates with the number of such accounts, the opening or closing of accounts has a direct impact on our revenues. From time to time, the fund companies for whom we provide these services request that accounts with small balances be closed.

In Canada, we earn revenue from the sales of our investment and savings products in two ways: commissions (or dealer reallowance) on mutual fund sales and fees paid based upon clients' asset values (mutual fund trail commissions and asset management fees from segregated funds and Concert™ Series funds). On the sale of segregated funds, we earn a fee based on total asset value.

**Other Distributed Products**

We offer other products, including prepaid legal services, auto and homeowners' insurance referrals, credit information products, long-term care insurance, and debt resolution referrals. In Canada, we also offer mortgage loan referrals and insurance offerings for small businesses. While many of these products are Primerica-branded, all of them are underwritten or otherwise provided by a third party.

We offer our U.S. and Canadian clients a Primerica-branded prepaid legal services program on a subscription basis that is underwritten and provided by Pre-paid Legal Services, Inc. The prepaid legal services program offers a network of attorneys in each state, province or territory to assist subscribers with legal matters such as drafting wills, living wills and powers of attorney, trial defense and motor vehicle-related matters. We receive a commission based on our sales of these subscriptions.

We have an arrangement with Answer Financial, Inc. ("Answer Financial"), an independent insurance agency, whereby our U.S. sales representatives refer clients to Answer Financial to receive multiple, competitive auto and homeowners' insurance quotes. Answer Financial's comparative quote process allows clients to easily identify the underwriter that is most competitively priced for their type of risk. We receive commissions based on completed auto and homeowners' insurance applications and pay our sales representatives a flat referral fee for each completed application.

We offer our credit information products in the United States and Canada. Credit information products allow clients to access their credit score and other personal credit information. Clients also have the capability of creating a simple-to-understand plan for paying off their debts with information from their credit file. Our credit information products are co-branded with and supported by a subsidiary of Equifax Inc.

We have an arrangement with LTCI Partners, LLC ("LTCI Partners"), an independent brokerage general agency specializing in long-term care insurance, whereby our U.S. sales representatives refer clients to LTCI Partners to receive a long-term care insurance quote. Many of these policies are underwritten and provided by Genworth Life Insurance Company and its affiliates and some by various other insurance providers. We receive commissions based on the annualized premium of placed and taken policies.

We have an arrangement with Freedom Financial Network, LLC, an independent limited liability company and its affiliates (collectively, “FFN”), whereby our U.S. sales representatives refer clients to FFN to receive solutions for resolving unmanageable debt. FFN's debt solutions include a debt resolution program, whereby FFN acts as the credit advocate for its clients by negotiating discounts to resolve unsecured debts and a federal income tax debt resolution program. We

14

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## Table of Contents

receive fees from FFN based on referred clients' enrollments in FFN's unsecured debt and tax resolution programs, and we pay our sales representatives a scheduled fee with respect to qualified enrollments.

In Canada, we have a referral program for mortgage loan products offered by a third party lender, B2B Bank. Due to regulatory requirements, our sales representatives in Canada only refer clients to the lender and are not involved in the loan application and closing process.

In Canada, we offer insurance products, including supplemental medical and dental, accidental death, and disability, to small businesses. These insurance products are underwritten and provided by The Edge Benefits Inc. and its affiliates. We receive a commission based on our sales of these policies and any subsequent renewals.

We also offer student life and, through 2013, short-term disability benefit insurance, which we underwrite through our New York insurance subsidiary, NBLIC. These products are distributed solely by outside third parties. During the first quarter of 2014, NBLIC sold its short-term disability benefit business to AmTrust North America, Inc. In 2014, NBLIC will also cease the marketing and underwriting of new student life insurance policies but will continue to administer the existing block of student life business.

### Regulation

Our operations are subject to extensive laws and governmental regulations, including administrative determinations, court decisions and similar constraints. The purpose of the laws and regulations affecting our operations is primarily to protect our clients and other consumers. Many of the laws and regulations to which we are subject are regularly re-examined, and existing or future laws and regulations may become more restrictive or otherwise adversely affect our operations.

Insurance and securities regulatory authorities periodically make inquiries regarding compliance by us and our subsidiaries with insurance, securities and other laws and regulations regarding the conduct of our insurance and securities businesses. At any given time, a number of financial or market conduct examinations of our subsidiaries may be ongoing. We cooperate with such inquiries and take corrective action when warranted.

### Regulation of Our Insurance Business

Primerica Life, as a Massachusetts domestic insurer, is regulated by the Massachusetts DOI and is licensed to transact business in the United States (except New York), the District of Columbia and certain U.S. territories. NBLIC, as a New York domestic insurer and a wholly owned subsidiary of Primerica Life, is regulated by the New York State Department of Financial Services ("NYDFS") and is licensed to transact business in all 50 states, the District of Columbia and the U.S. Virgin Islands. Peach Re, Inc. ("Peach Re"), as a special purpose financial captive insurance company domiciled in Vermont and a wholly owned subsidiary of Primerica Life, is regulated by the Vermont Department of Financial Regulation ("Vermont DOI").

State insurance laws and regulations regulate all aspects of our U.S. insurance business. Such regulation is vested in state agencies having broad administrative and, in some instances, discretionary power dealing with many aspects of our business, which may include, among other things, premium rates and increases thereto, reserve requirements, marketing practices, advertising, privacy, policy forms, reinsurance reserve requirements, acquisitions, mergers, and capital adequacy.

Our U.S. insurance subsidiaries are required to file certain annual, quarterly and periodic reports with the supervisory agencies in the jurisdictions in which they do business, and their business and accounts are subject to examination by such agencies at any time. These examinations generally are conducted under National Association of Insurance Commissioners ("NAIC") guidelines. Under the rules of these jurisdictions, insurance companies are examined periodically (generally every three to five years) by one or more of the supervisory agencies on behalf of the states in which they do business. Our most recent insurance department examinations have not produced any significant adverse findings regarding any of our insurance subsidiaries.

Primerica Life Canada is federally incorporated and provincially licensed. It transacts business in all Canadian provinces and territories. Primerica Life Canada is regulated federally by the Office of the Superintendent of Financial Institutions Canada ("OSFI") and provincially by the Superintendents of Insurance for each province and territory. Federal and provincial insurance laws regulate all aspects of our Canadian insurance business. OSFI regulates insurers' corporate governance, financial and prudential oversight, and regulatory compliance, while provincial and territorial regulators oversee insurers' market conduct practices and related compliance.

Our Canadian insurance subsidiary files quarterly and annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and other locally accepted standards with OSFI in compliance with legal and regulatory requirements. OSFI conducts periodic detailed examinations of insurers' business and financial practices, including the control environment, internal and external auditing and minimum capital adequacy, surpluses and

15

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Table of Contents

related testing, legislative compliance and appointed actuary requirements. These examinations also address regulatory compliance with anti-money laundering practices, outsourcing, related-party transactions, privacy and corporate governance. Provincial regulators conduct periodic market conduct examinations of insurers doing business in their jurisdiction.

In addition to federal and provincial oversight, Primerica Life Canada is also subject to the guidelines set out by the Canadian Life and Health Insurance Association ("CLHIA"). CLHIA is an industry association that works closely with federal and provincial regulators to establish market conduct guidelines and sound business and financial practices addressing matters such as sales representative suitability and screening, insurance illustrations and partially guaranteed savings products.

The laws and regulations governing our U.S. and Canadian insurance businesses include numerous provisions governing the marketplace activities of insurers, including policy filings, payment of insurance commissions, disclosures, advertising, product replacement, sales and underwriting practices and complaints and claims handling. The state insurance regulatory authorities in the United States and the federal and provincial regulators in Canada generally enforce these provisions through periodic market conduct examinations.

In addition, most U.S. states and Canadian provinces and territories, as well as the Canadian federal government, have laws and regulations governing the financial condition of insurers, including standards of solvency, types and concentration of investments, establishment and maintenance of reserves, reinsurance and requirements of capital adequacy, and the business conduct of insurers, including sales and marketing practices, claim procedures and practices, and policy form content. As discussed previously, U.S. state insurance law and Canadian provincial insurance law also require certain licensing of insurers and their agents.

**Insurance Holding Company Regulation; Limitations on Dividends.** The states in which our U.S. insurance subsidiaries are domiciled have enacted legislation and adopted regulations regarding insurance holding company systems. These laws require registration of, and periodic reporting by, insurance companies domiciled within the jurisdiction that control, or are controlled by, other corporations or persons so as to constitute an insurance holding company system. These laws also affect the acquisition of control of insurance companies as well as transactions between insurance companies and companies controlling them.

The Parent Company is a holding company that has no significant operations. Our primary asset is the capital stock of our subsidiaries, and our primary liability is \$375.0 million in principal amount of senior unsecured notes (the "Senior Notes"). As a result, we depend on dividends or other distributions from our insurance and other subsidiaries as the principal source of cash to meet our obligations, including the payment of interest on, and repayment of, principal of any debt obligations.

The states in which our U.S. insurance subsidiaries are domiciled impose certain restrictions on our insurance subsidiaries' ability to pay dividends to us. In Canada, dividends can be paid subject to the paying insurance company's continuing compliance with regulatory requirements and upon notice to OSFI. We determine the dividend capacity of our insurance subsidiaries using statutory accounting principles ("SAP") in the United States and IFRS in Canada.

The following table sets forth the statutory value of cash and securities dividends paid or payable by our insurance subsidiaries:

	Cash and Securities Dividends Paid or Payable		
	Year ended December 31,		
	2013	2012	2011
	(in thousands)		
Primerica Life	\$ 150,000	\$ 150,000	\$ 200,000
Primerica Life Canada	14,387	15,100	—

For additional information on dividend capacity and restrictions, see Note 14 (Statutory Accounting and Dividend Restrictions) to our consolidated financial statements included elsewhere in this report.

**Policy and Contract Reserve Sufficiency Analysis.** Under the laws and regulations of their jurisdictions of domicile, our U.S. insurance subsidiaries are required to conduct annual analyses of the sufficiency of their life insurance statutory reserves. In addition, other U.S. jurisdictions in which our U.S. subsidiaries are licensed may have certain

reserve requirements that differ from those of their domiciliary jurisdictions. In each case, a qualified actuary must submit an opinion that states that the aggregate statutory reserves, when considered in light of the assets held with respect to such reserves, make good and sufficient provision for the associated contractual obligations and related expenses of the insurer. If such an opinion cannot be provided, the affected insurer must set up additional reserves by moving funds from

Table of Contents

surplus. Our U.S. insurance subsidiaries most recently submitted these opinions without qualification as of December 31, 2013 to applicable insurance regulatory authorities.

Our Canadian insurance subsidiary also is required to conduct regular analyses of the sufficiency of its life insurance statutory reserves. Life insurance reserving and reporting requirements are completed by our Canadian insurance subsidiary's appointed actuary. Materials provided by the appointed actuary are filed with OSFI as part of our annual filing and are subject to OSFI's review. Based upon this review, OSFI may institute remedial action against our Canadian insurance subsidiary as OSFI deems necessary. Our Canadian insurance subsidiary has not been subject to any such remediation or enforcement by OSFI.

**Surplus and Capital Requirements.** U.S. insurance regulators have the discretionary authority, in connection with the ongoing licensing of our U.S. insurance subsidiaries, to limit or prohibit the ability of an insurer to issue new policies if, in the regulators' judgment, the insurer is not maintaining a minimum amount of surplus or is in hazardous financial condition. Insurance regulators may also limit the ability of an insurer to issue new life insurance policies and annuity contracts above an amount based upon the face amount and premiums of policies of a similar type issued in the prior year. We do not believe that the current or anticipated levels of statutory surplus of our U.S. insurance subsidiaries present a material risk that any such regulator would limit the amount of new policies that our U.S. insurance subsidiaries may issue.

The NAIC has established risk-based capital ("RBC") standards for U.S. life insurance companies, as well as a model act to be applied at the state level. The model act provides that life insurance companies must submit an annual RBC report to state regulators reporting their RBC based upon four categories of risk: asset risk, insurance risk, interest rate risk and business risk. For each category, the capital requirement is determined by applying factors to various asset, premium and reserve items, with the factor being higher for those items with greater underlying risk and lower for less risky items. The formula is intended to be used by insurance regulators as an early warning tool to identify possible weakly capitalized companies for purposes of initiating further regulatory action. If an insurer's RBC falls below specified levels, the insurer would be subject to different degrees of regulatory action depending upon the level. These actions range from requiring the insurer to propose actions to correct the capital deficiency to placing the insurer under regulatory control. As of December 31, 2013, Primerica Life had statutory capital and surplus in excess of the applicable regulatory thresholds.

In Canada, OSFI has authority to request an insurer to enter into a prudential agreement implementing measures to maintain or improve the insurer's safety and soundness. OSFI also may issue orders to an insurer directing it to refrain from unsafe or unsound practices or to take action to remedy financial concerns. OSFI has neither requested that our Canadian insurance subsidiary enter into any prudential agreement nor has OSFI issued any order against our Canadian insurance subsidiary.

In Canada, OSFI oversees an insurer's minimum capital requirement and determines the sum of capital requirements for five categories of risk: asset default risk, mortality/morbidity/lapse risks, changes in interest rate environment risk, segregated funds risk and foreign exchange risk. As of December 31, 2013, Primerica Life Canada had statutory capital in excess of the applicable regulatory thresholds.

**NAIC Pronouncements and Reviews.** The NAIC promulgates model insurance laws and regulations for adoption by the states in order to standardize insurance industry accounting and reporting guidance. Although many state regulations emanate from NAIC model statutes and pronouncements, statutory accounting principles continue to be established by individual state laws, regulations and permitted practices. Certain changes to NAIC model statutes and pronouncements, particularly as they affect accounting issues, may take effect automatically without affirmative action by a given state. With respect to some financial regulations and guidelines, non-domiciliary states sometimes defer to the interpretation of the insurance department of the state of domicile. However, neither the action of the domiciliary state nor the action of the NAIC is binding on a non-domiciliary state. Accordingly, a non-domiciliary state could choose to follow a different interpretation.

The NAIC has established guidelines to assess the financial strength of insurance companies for U.S. state regulatory purposes. The NAIC conducts annual reviews of the financial data of insurance companies primarily through the application of 12 financial ratios prepared on a statutory basis. The annual statements are submitted to state insurance departments to assist them in monitoring insurance companies in their state.

Statutory Accounting Principles. SAP is a basis of accounting developed by U.S. insurance regulators to monitor and regulate the solvency of insurance companies. In developing SAP, insurance regulators were primarily concerned with evaluating an insurer's ability to pay all of its current and future obligations to policyholders. As a result, statutory accounting focuses on conservatively valuing the assets and liabilities of insurers, generally in accordance with standards specified by the insurer's domiciliary jurisdiction. Uniform statutory accounting practices are established by the NAIC and generally adopted by regulators in the various U.S. jurisdictions. These accounting principles and related regulations determine, among other things, the amounts our insurance subsidiaries may pay to us as dividends, and they differ

Table of Contents

somewhat from accounting principles generally accepted in the United States of America ("U.S. GAAP"), which are designed to measure a business on a going-concern basis. Under U.S. GAAP, certain expenses are capitalized when incurred and then amortized over the life of the associated policies. The valuation of assets and liabilities under U.S. GAAP is based in part upon best estimate assumptions made by the insurer. U.S. GAAP-basis stockholders' equity represents both amounts currently available and amounts expected to emerge over the life of the business. As a result, the values for assets, liabilities and equity reflected in financial statements prepared in accordance with U.S. GAAP may be different from those reflected in financial statements prepared under SAP.

State Insurance Guaranty Funds Laws. Under most state insurance guaranty fund laws, insurance companies doing business therein can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. Most insurance guaranty fund laws currently provide that an assessment may be excused or deferred if it would threaten an insurer's own financial strength. In addition, assessments may be partially offset by credits against future state premium taxes.

Additional Oversight in Canada. The Minister of Finance (Canada) under the Insurance Companies Act (Canada) approved our indirect acquisition of Primerica Life Canada in April 2010. The Minister expects that a person controlling a federal insurance company will provide ongoing financial, managerial or operational support to its subsidiary should such support prove necessary. The Minister required us to sign a support principle letter, which provides, without limiting the scope of the support principle letter, that this ongoing support may take the form of additional capital, the provision of managerial expertise or the provision of support in such areas as risk management, internal control systems and training. The provision of the support principle letter is intended to ensure that the person controlling the federal insurance company is aware of the importance and relevance of the support principle in the consideration of the application. However, the letter does not create a legal obligation on our part to provide the support.

Our Canadian insurance subsidiary is currently in compliance with the terms of the support principle letter.

Regulation of Our Investment and Savings Products Business

PFS Investments is registered with, and regulated by, FINRA and the Securities and Exchange Commission ("SEC"). It is subject to regulation by the Municipal Securities Rulemaking Board (the "MSRB") with respect to 529 plans, by the Department of Labor ("DOL") with respect to certain retirement plans, and by state securities agencies. PFS Investments operates as an introducing broker-dealer and is registered in all 50 states and with the SEC. As such, it performs the suitability review of investment recommendations in accordance with FINRA requirements, but it does not hold client accounts. U.S. client funds are held by the mutual fund in which such client funds are invested or by the annuity underwriters in the case of variable annuities.

The SEC rules and regulations that currently apply to PFS Investments and our registered representatives generally require that we make suitable investment recommendations to our customers and disclose conflicts of interest that might affect the recommendations or advice we provide. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") gave the SEC the power to impose on broker-dealers a heightened standard of conduct (fiduciary duty) that is currently applicable only to investment advisors. As required by the Dodd-Frank Act, the SEC staff submitted a report to Congress in 2010 in which it recommended that the SEC adopt a uniform fiduciary standard of conduct. The timing of any future rulemaking is unclear.

In October 2010, the DOL published a proposed rule (the "DOL Proposed Rule") that would more broadly define the circumstances under which a person or entity may be considered a fiduciary for purposes of the prohibited transaction rules of Internal Revenue Code Section 4975 ("IRC Section 4975"). Under IRC Section 4975, certain types of compensation paid by third parties with respect to transactions involving assets in qualified accounts, including IRAs, may be prohibited. In September 2011, the DOL withdrew the DOL Proposed Rule, but has indicated that it will re-propose a similar fiduciary rule in 2014. If PFS Investments and its securities-licensed representatives are deemed to be fiduciaries under a rule similar to the DOL Proposed Rule, our ability to receive and retain certain types of compensation paid by third parties with respect to both new and existing assets in qualified accounts could be significantly limited. Due to the uncertainty of present facts and circumstances, we currently are unable to determine the impact, if any, on our business, financial position or results of operations. For more information, see "Risk Factors."

PFS Investments is also approved as a non-bank custodian under Internal Revenue Service (“IRS”) regulations and, in that capacity, may act as a custodian or trustee for certain retirement accounts. Our sales representatives who sell securities products through PFS Investments (including, in certain jurisdictions, variable annuities) are required to be registered representatives of PFS Investments. All aspects of PFS Investments' business are regulated, including sales methods and charges, trade practices, the use and safeguarding of customer securities, capital structure, recordkeeping, conduct and supervision of its employees.



## Table of Contents

PFS Investments is an SEC-registered investment advisor and, under the name Primerica Advisors, offers a managed accounts, or mutual fund advisory, program. In most states, our representatives are required to obtain an additional license to offer this program.

Primerica Shareholder Services, Inc. ("PSS") is registered with the SEC as a transfer agent and, accordingly, is subject to SEC rules and examinations.

PFSL Investments Canada is a mutual fund dealer registered with and regulated by the Mutual Fund Dealers Association of Canada (the "MFDA"), the national self-regulatory organization for the distribution side for the Canadian mutual fund industry. It is also registered with provincial and territorial securities commissions throughout Canada. As a registered mutual fund dealer, PFSL Investments Canada performs the suitability review of mutual fund investment recommendations, and like our U.S. broker-dealer, it does not hold client accounts.

PFSL Investments Canada sales representatives are required to be registered in the provinces and territories in which they do business, including regulation by the Autorité des marchés financiers in Quebec, and are also subject to regulation by the MFDA. These regulators have broad administrative powers, including the power to limit or restrict the conduct of our business and impose censures or fines for failure to comply with the law or regulations.

PFSL Fund Management in Canada is registered as an Investment Fund Manager in connection with our Concert™ Series mutual funds and is regulated by provincial securities commissions.

### Other Laws and Regulations

The USA Patriot Act of 2001 (the "Patriot Act") contains anti-money laundering and financial transparency laws and mandates the implementation of various regulations applicable to broker-dealers and other financial services companies, including insurance companies. The Patriot Act seeks to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering.

U.S. federal and state laws and regulations require financial institutions, including insurance companies, to protect the security and confidentiality of consumer financial information and to notify consumers about their policies and practices relating to their collection and disclosure of consumer information and their policies relating to protecting the security and confidentiality of that information. Similarly, federal and state laws and regulations also govern the disclosure and security of consumer health information. In particular, regulations promulgated by the U.S. Department of Health and Human Services regulate the disclosure and use of protected health information by health insurers and others (including certain life insurers), the physical and procedural safeguards employed to protect the security of that information and the electronic storage and transmission of such information. Congress and state legislatures are expected to consider additional legislation relating to privacy and other aspects of consumer information.

The Financial Consumer Agency of Canada ("FCAC"), a Canadian federal regulatory body, is responsible for ensuring that federally regulated financial institutions, which include Primerica Life Canada and PFSL Investments Canada, comply with federal consumer protection laws and regulations, voluntary codes of conduct and their own public commitments. The Financial Transactions and Reports Analysis Centre of Canada ("FINTRAC") is Canada's financial intelligence unit. Its mandate includes ensuring that entities subject to the Proceeds of Crime (Money Laundering) and Terrorist Financing Act comply with reporting, recordkeeping and other obligations under that act. We are also subject to privacy laws under the jurisdiction of federal and provincial privacy commissioners, anti-money laundering laws enforced by FINTRAC and OSFI, and the consumer complaints provisions of federal insurance laws under the mandate of the FCAC, which requires insurers to belong to a complaints ombud-service and file a copy of their complaints handling policy with the FCAC.

### Segment Financial and Geographic Disclosures

We have two primary operating segments — Term Life Insurance and Investment and Savings Products. The Term Life Insurance segment includes underwriting profits on our in-force book of term life insurance policies, net of reinsurance, which are underwritten by our life insurance company subsidiaries. The Investment and Savings Products segment includes mutual funds and annuities distributed through licensed broker-dealer subsidiaries and includes segregated funds, an individual annuity savings product that we underwrite in Canada through Primerica Life Canada. We also have a Corporate and Other Distributed Products segment, which consists primarily of revenues and expenses related to the distribution of non-core products.

See “Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations” and Note 2 (Segment Information) to our consolidated financial statements for more information concerning our domestic and international operations and our operating segments.

For information on risks relating to our Canadian operations, see "Risk Factors" and "Quantitative and Qualitative Information About Market Risks – Canadian Currency Risk."

## Table of Contents

### Competition

We operate in a highly competitive environment with respect to the sale of financial products and, to a lesser extent, for retaining our more productive sales representatives. Because we offer several different financial products, we compete directly with a variety of financial institutions, such as insurance companies and brokers, banks, finance companies, credit unions, broker-dealers, mutual fund companies and other financial products and services companies. Competitors with respect to our term life insurance products consist both of stock and mutual insurance companies, as well as other financial intermediaries. Competitive factors affecting the sale of life insurance products include the level of premium rates, benefit features, risk selection practices, compensation of sales representatives and financial strength ratings from ratings agencies such as A.M. Best.

In offering our securities products, our sales representatives compete with a range of other advisors, broker-dealers and direct channels, including wirehouses, regional broker-dealers, independent broker-dealers, insurers, banks, asset managers, registered investment advisors, mutual fund companies and other direct distributors. The mutual funds that we offer face competition from other mutual fund families and alternative investment products, such as exchange-traded funds. Our annuity products compete with products from numerous other companies. Competitive factors affecting the sale of annuity products include price, product features, investment performance, commission structure, perceived financial strength, claims-paying ratings, service and distribution capabilities.

### Information Technology

We built a sophisticated information technology platform to support our clients, operations and sales force. Located at our main campus in Duluth, Georgia, our data center houses an enterprise-class IBM mainframe that serves as the repository for all client and sales force data and operates as a database server for our distributed environment. Our business applications, many of which are proprietary, are supported by application developers and data center staff at our main campus. Our information security team provides services that include project consulting, threat management, application and infrastructure assessments, secure configuration management and information security administration. This infrastructure also supports a combination of local and remote recovery solutions for business resumption in the event of a disaster.

### Employees

As of December 31, 2013, we had 1,775 full-time employees in the United States and 220 full-time employees in Canada. In addition, as of December 31, 2013, we had 535 on-call employees in the United States and 75 on-call employees in Canada who provided services on an as-needed hourly basis. None of our employees is a member of any labor union, and we have never experienced any business interruption as a result of any labor disputes.

### Available Information

We make available free of charge on our website ([www.primerica.com](http://www.primerica.com)) our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable upon filing such information with, or furnishing it to, the SEC. Information included on our website is not incorporated by reference into this annual report on Form 10-K. The Company's reports are also available at the SEC's Public Reference Room at 100 F. Street, NE, Washington, DC 20549, on their website at [www.sec.gov](http://www.sec.gov), or by calling the SEC at 1-800-SEC-0330.

## ITEM 1A. RISK FACTORS.

### Risks Related to Our Distribution Structure

Our failure to continue to attract new recruits, retain sales representatives or license or maintain the licensing of our sales representatives would materially adversely affect our business, financial condition and results of operations. New sales representatives provide us with access to new clients, enable us to increase sales and provide the next generation of successful sales representatives. As is typical with distribution businesses, we experience a high rate of turnover among our part-time sales representatives, which requires us to attract, retain and motivate a large number of sales representatives. Recruiting is performed by our current sales representatives, and the effectiveness of our recruiting



Table of Contents

is generally dependent upon our reputation as a provider of a rewarding and potentially lucrative income opportunity, as well as the general competitive and economic environment. Whether recruits are motivated to complete their training and licensing requirements and to commit to selling our products is largely dependent upon the effectiveness of our compensation and promotional programs and the competitiveness of such programs compared with other companies, including other part-time business opportunities.

If our new business opportunities and products do not generate sufficient interest to attract new recruits, motivate them to become licensed sales representatives and maintain their licenses and incentivize them to sell our products and recruit other new sales representatives, our business would be materially adversely affected.

Furthermore, if we or any other businesses with a similar distribution structure engage in practices resulting in increased negative public attention for our business model, the resulting reputational challenges could adversely affect our ability to attract new recruits. Companies such as ours that use independent agents to sell directly to customers can be the subject of negative commentary on website postings, social media and other non-traditional media. This negative commentary can spread inaccurate or incomplete information about distribution companies in general or our company in particular, which can make our recruiting more difficult.

From time to time, various jurisdictions make changes to the state or provincial licensing examination process that may make it more difficult for our sales representatives to obtain their life insurance licenses. The Canadian Insurance Services Regulatory Organizations (“CISRO”) is developing a new unified provincial life insurance licensing examination program to be implemented in early 2016 that could significantly increase the cost, time and difficulty for our agents to obtain their life insurance licenses in Canada. If CISRO’s new licensing system is implemented as currently described, it could ultimately result in a decline in the number of our licensed representatives in Canada and our business could be materially adversely affected.

Certain of our key RVPs have large sales organizations that include thousands of downline sales representatives. These key RVPs are responsible for attracting, motivating, supporting and assisting the sales representatives in their sales organizations. The loss of one or more key RVPs together with a substantial number of their sales representatives for any reason could materially adversely affect our financial results and could impair our ability to attract new sales representatives.

There are a number of laws and regulations that could apply to our distribution model, which subject us to the risk that we may have to modify our distribution structure.

In the past, certain distribution models that use independent agents to sell directly to customers have been subject to challenge under various laws, including laws relating to business opportunities, franchising and unfair or deceptive trade practices.

In general, state business opportunity and franchise laws in the United States prohibit sales of business opportunities or franchises unless the seller provides potential purchasers with a pre-sale disclosure document that has first been filed with a designated state agency and grants purchasers certain legal recourse against sellers of business opportunities and franchises. In Canada, the provinces of Alberta, Ontario, New Brunswick and Prince Edward Island have enacted legislation dealing with franchising, which typically requires mandatory disclosure to prospective franchisees.

We have not been, and are not currently, subject to business opportunity laws because the amounts paid by our new representatives to us: (i) are less than the minimum thresholds set by many state statutes and (ii) are not fees paid for the right to participate in a business, but rather are for bona fide expenses such as state-required insurance examinations and pre-licensing training. We have not been, and are not currently, subject to franchise laws for similar reasons. However, there is a risk that a governmental agency or court could disagree with our assessment or that these laws and regulations could change. In addition, although we do not believe that the Federal Trade Commission (“FTC”)’s Business Opportunity Rule applies to our company, it could be interpreted in a manner inconsistent with our interpretation. Becoming subject to business opportunity or franchise laws or regulations could require us to provide certain disclosures and regulate the manner in which we recruit our sales representatives that may increase the expense of, or adversely impact our success in, recruiting new sales representatives and make it more difficult for us to successfully attract and recruit new sales representatives.

There are various laws and regulations that prohibit fraudulent or deceptive schemes known as pyramid schemes. In general, a pyramid scheme is defined as an arrangement in which new participants are required to pay a fee to participate in the organization and then receive compensation primarily for recruiting other persons to participate, either directly or through sales of goods or services that are merely disguised payments for recruiting others. The application of these laws and regulations to a given set of business practices is inherently fact-based and, therefore, is subject to interpretation by applicable enforcement authorities. Our sales representatives are paid commissions based on sales of our products and services to bona fide purchasers, and for this and other reasons we do not believe that we are subject to laws regulating

Table of Contents

pyramid schemes. Moreover, our sales representatives are not required to purchase any of the products marketed by us. However, even though we believe that our distribution practices are currently in compliance with, or exempt from, these laws and regulations, there is a risk that a governmental agency or court could disagree with our assessment or that these laws and regulations could change, which may require us to cease our operations in certain jurisdictions or result in other costs or fines.

There are also federal, state and provincial laws of general application, such as the FTC Act, and state or provincial unfair and deceptive trade practices laws that could potentially be invoked to challenge aspects of our recruiting of sales representatives and compensation practices. In particular, our recruiting efforts include promotional materials for recruits that describe the potential opportunity available to them if they join our sales force. These materials, as well as our other recruiting efforts and those of our sales representatives, are subject to scrutiny by the FTC and state and provincial enforcement authorities with respect to misleading statements, including misleading earnings claims made to convince potential new recruits to join our sales force. If claims made by us or by our sales representatives are deemed to be misleading, it could result in violations of the FTC Act or comparable state and provincial statutes prohibiting unfair or deceptive trade practices or result in reputational harm.

Being subject to, or out of compliance with, the aforementioned laws and regulations could require us to change our distribution structure, which could materially adversely affect our business, financial condition and results of operations.

Regulators could adopt laws or interpret existing laws in a way that would require retroactive changes to our business, accounting practices, or redundant reserve financing structure. Any such retroactive changes could have a material adverse effect on our business, financial condition and results of operations.

There may be adverse tax and employment law consequences if the independent contractor status of our sales representatives is successfully challenged.

Our sales representatives are independent contractors who operate their own businesses. In the past, we have been successful in defending our company in various contexts before courts and governmental agencies against claims that our sales representatives should be treated like employees. Although we believe that we have properly classified our representatives as independent contractors, there is nevertheless a risk that the IRS or another authority will take a different view. Furthermore, the tests governing the determination of whether an individual is considered to be an independent contractor or an employee are typically fact-sensitive and vary from jurisdiction to jurisdiction. Laws and regulations that govern the status and misclassification of independent sales representatives are subject to change or interpretation by various authorities.

The classification of workers as independent contractors has been the subject of federal legislative and regulatory interest over the last several years, with proposals being made that call for greater scrutiny of independent contractor classifications and greater penalties for companies who wrongly classify workers as independent contractors instead of employees. Thus far, none of these proposals has been enacted by the federal government. In 2012, the DOL reiterated its intention first communicated in 2010 to gather information and pursue rulemaking under the Fair Labor Standards Act referred to as "Right to Know". If rules are adopted, companies such as Primerica that utilize independent contractors may be required to give each potential independent contractor information about that status, including how the classification was determined, an individual's rights to challenge his or her classification and disclosures of all of the possible downsides (such as lack of benefits and lack of pay protections under the Fair Labor Standards Act) of being categorized as an independent contractor. Several states are considering similar efforts. We cannot predict the outcome of these legislative and regulatory efforts, but we expect the topic of independent contractor classification to remain active.

If a federal, state or provincial authority enacts legislation or adopts regulations that change the manner in which employees and independent contractors are classified or makes any adverse determination with respect to some or all of our independent contractors, we could incur significant costs in complying with such laws and regulations, including in respect of tax withholding, social security payments and recordkeeping, or we may be required to modify our business model, any of which could have a material adverse effect on our business, financial condition and results of operations. In addition, there is the risk that we may be subject to significant monetary liabilities arising from fines or judgments as a result of any such actual or alleged non-compliance with federal, state, or provincial tax or

employment laws or with respect to any applicable employee benefit plan.

The Company or its independent sales representatives' violation of, or non-compliance with, laws and regulations and the related claims and proceedings could expose us to material liabilities.

Extensive federal, state, provincial and territorial laws regulate our products and our relationships with our clients, imposing certain requirements that our sales representatives must follow. At any given time, we may have pending state, federal or provincial examinations or inquiries of our investment and savings products and insurance businesses.

In

22

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## Table of Contents

addition to imposing requirements that sales representatives must follow in their dealings with clients, these laws and regulations generally require us to maintain a system of supervision to attempt to ensure that our sales representatives comply with the requirements to which they are subject. We have developed policies and procedures to comply with these laws and regulations. However, despite these compliance and supervisory efforts, the breadth of our operations and the broad regulatory requirements could result in oversight failures and instances of non-compliance or misconduct on the part of our sales representatives.

From time to time, we are subject to private litigation as a result of alleged misconduct by our sales representatives. Examples include claims that a sales representative's failure to disclose underwriting-related information regarding the insured on an insurance application resulted in the denial of a life insurance policy claim, and with respect to investment and savings products sales, errors or omissions that a sales representative made in connection with an account. In addition to the potential for non-compliance with laws or misconduct applicable to our existing product offerings, we could experience similar regulatory issues or litigation with respect to new products. Non-compliance or misconduct by our sales representatives could result in adverse findings in either examinations or litigation and could subject us to sanctions, monetary liabilities, restrictions on or the loss of the operation of our business, claims against us or reputational harm, any of which could have a material adverse effect on our business, financial condition and results of operations.

Any failure to protect the confidentiality of client information could adversely affect our reputation and have a material adverse effect on our business, financial condition and results of operations.

Pursuant to federal laws, various federal agencies have established rules protecting the privacy and security of personal information. In addition, most states and some provinces have enacted laws, which vary significantly from jurisdiction to jurisdiction, to safeguard the privacy and security of personal information. Many of our sales representatives and employees have access to, and routinely process, personal information of clients through a variety of media, including the Internet and software applications. We rely on various internal processes and controls to protect the confidentiality of client information that is accessible to, or in the possession of, our company, our employees and our sales representatives. It is possible that a sales representative or employee could, intentionally or unintentionally, disclose or misappropriate confidential client information. If we fail to maintain adequate internal controls or if our sales representatives or employees fail to comply with our policies and procedures, misappropriation or intentional or unintentional inappropriate disclosure or misuse of client information could occur. Such internal control inadequacies or non-compliance could materially damage our reputation or lead to civil or criminal penalties, which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

### Risks Related to Our Insurance Business and Reinsurance

We may face significant losses if our actual experience differs from our expectations regarding mortality or persistency.

We set prices for life insurance policies based upon expected claim payment patterns derived from assumptions we make about the mortality rates, or likelihood of death, of our policyholders in any given year. The long-term profitability of these products depends upon how our actual mortality rates compare to our pricing assumptions. For example, if mortality rates are higher than those assumed in our pricing assumptions, we could be required to make more death benefit payments under our life insurance policies or to make such payments sooner than we had projected, which may decrease the profitability of our term life insurance products and result in an increase in the cost of our subsequent reinsurance transactions.

The prices and expected future profitability of our life insurance products are also based, in part, upon assumptions related to persistency. Actual persistency that is lower than our persistency assumptions could have an adverse effect on profitability, especially in the early years of a policy, primarily because we would be required to accelerate the amortization of expenses we deferred in connection with the acquisition of the policy. Actual persistency that is higher than our persistency assumptions could have an adverse effect on profitability in the later years of a block of policies because the anticipated claims experience is higher in these later years. If actual persistency is significantly different from that assumed in our pricing assumptions, our reserves for future policy benefits may prove to be inadequate. We are precluded from adjusting premiums on our in-force business during the initial term of the policies, and our ability

to adjust premiums on in-force business after the initial policy term is limited to the maximum premium rates in the policy.

Our assumptions and estimates regarding mortality and persistency require us to make numerous judgments and, therefore, are inherently uncertain. We cannot determine with precision the actual persistency or ultimate amounts that we will pay for actual claim payments on a block of policies, the timing of those payments, or whether the assets supporting these contingent future payment obligations will increase to the levels we estimate before payment of claims. If we conclude that our future policy benefit reserves, together with future premiums, are insufficient to cover actual or expected

Table of Contents

claims payments and the scheduled amortization of our deferred policy acquisition costs ("DAC") assets, we would be required to first accelerate our amortization of the DAC assets and then increase our future policy benefit reserves and incur income statement charges for the period in which we make the determination, which could materially adversely affect our business, financial condition and results of operations.

The occurrence of a catastrophic event could materially adversely affect our business, financial condition and results of operations.

Our insurance operations are exposed to the risk of catastrophic events, which could cause a large number of premature deaths of our insureds. A catastrophic event could also cause significant volatility in global financial markets and disrupt the economy. Although we have ceded a significant majority of our mortality risk to reinsurers, a catastrophic event could cause a material adverse effect on our business, financial condition and results of operations. Claims resulting from a catastrophic event could cause substantial volatility in our financial results for any quarter or year and could also materially harm the financial condition of our reinsurers, which would increase the probability of default on reinsurance recoveries. Our ability to write new business could also be adversely affected.

In addition, most of the jurisdictions in which our insurance subsidiaries are admitted to transact business require life insurers doing business within the jurisdiction to participate in guaranty associations, which raise funds to pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent or failed issuers. It is possible that a catastrophic event could require extraordinary assessments on our insurance companies, which could have a material adverse effect on our business, financial condition and results of operations.

Our insurance business is highly regulated, and statutory and regulatory changes may materially adversely affect our business, financial condition and results of operations.

Life insurance statutes and regulations are generally designed to protect the interests of the public and policyholders.

Those interests may conflict with the interests of our stockholders. Currently, in the United States, the power to regulate insurance resides almost exclusively with the states. The laws of the various U.S. jurisdictions grant state insurance regulators broad powers to regulate almost all aspects of our insurance business. Much of this state regulation follows model statutes or regulations developed or amended by the NAIC, which is composed of the insurance commissioners of each U.S. jurisdiction. The NAIC re-examines and amends existing model laws and regulations (including holding company regulations) in addition to determining whether new ones are needed.

The U.S. Congress continues to examine the current condition of U.S. state-based insurance regulation to determine whether to impose federal regulation and to allow optional federal insurance company incorporation. The Dodd-Frank Act created the Federal Insurance Office and authorized it to, among other things, study methods to modernize and improve insurance regulation, including uniformity and the feasibility of federal regulation. We cannot predict with certainty whether, or in what form, reforms will be enacted and, if so, whether the enacted reforms will materially affect our business. Changes in federal statutes, including the Gramm-Leach-Bliley Act and the McCarran-Ferguson Act, financial services regulation and federal taxation, in addition to changes to state statutes and regulations, may be more restrictive than current requirements or may result in higher costs, and could materially adversely affect our business, financial condition and results of operations.

We are currently undergoing targeted multi-state treasurer audits with respect to unclaimed property laws, and Primerica Life and NBLIC are engaged in targeted multi-state market conduct examinations with respect to their claims-paying practices. The Treasurer of the State of West Virginia brought a suit against Primerica Life and other insurance companies alleging violations of the West Virginia unclaimed property act. The suit was dismissed, and the Treasurer has appealed. Other jurisdictions may pursue similar audits examinations and litigation. The potential outcome of such actions is difficult to predict but could subject us to adverse consequences, including, but not limited to, settlement payments, additional payments to beneficiaries and additional escheatment of funds deemed abandoned under state laws. We cannot predict with certainty the effect these proceedings may have on the conduct of our business, financial condition and results of operations.

Provincial and federal insurance laws regulate all aspects of our Canadian insurance business. Changes to provincial or federal statutes and regulations may be more restrictive than current requirements or may result in higher costs, which could materially adversely affect our business, financial condition and results of operations. If OSFI determines that our corporate actions do not comply with applicable Canadian law, Primerica Life Canada could face sanctions or

finances, and Primerica Life Canada could be subject to increased capital requirements or other requirements deemed appropriate by OSFI.

We received approval from the Minister of Finance (Canada) under the Insurance Companies Act (Canada) in connection with our indirect acquisition of Primerica Life Canada. The Minister expects that a person controlling a federal insurance company will provide ongoing financial, managerial or operational support to its subsidiary should such support prove

Table of Contents

necessary, and has required us to sign a support principle letter to that effect. This ongoing support may take the form of additional capital, the provision of managerial expertise or the provision of support in such areas as risk management, internal control systems and training. However, the letter does not create a legal obligation on the part of the person to provide the support. In the event that OSFI determines Primerica Life Canada is not receiving adequate support from the Parent under applicable Canadian law, Primerica Life Canada may be subject to increased capital requirements or other requirements deemed appropriate by OSFI.

If there were to be extraordinary changes to statutory or regulatory requirements in the United States or Canada, we may be unable to fully comply with or maintain all required insurance licenses and approvals. Regulatory authorities have relatively broad discretion to grant, renew and revoke licenses and approvals. If we do not have all requisite licenses and approvals, or do not comply with applicable statutory and regulatory requirements, the regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our insurance activities or impose fines or penalties on us, which could materially adversely affect our business, financial condition and results of operations. We cannot predict with certainty the effect any proposed or future legislation or regulatory initiatives may have on the conduct of our business.

A decline in the regulatory capital ratios of our insurance subsidiaries could result in increased scrutiny by insurance regulators and ratings agencies and have a material adverse effect on our business, financial condition and results of operations.

Each of our U.S. insurance subsidiaries is subject to RBC standards (imposed under the laws of its respective jurisdiction of domicile). The RBC formula for U.S. life insurance companies generally establishes capital requirements relating to insurance, business, asset and interest rate risks. Our U.S. insurance subsidiaries are required to report their results of RBC calculations annually to the applicable state department of insurance and the NAIC. Our Canadian life insurance subsidiary is subject to minimum continuing capital and surplus requirements (“MCCSR”), and Tier 1 capital ratio requirements, and is required to provide its MCCSR and Tier 1 capital ratio calculations to the Canadian regulators. The capitalization of our insurance subsidiaries is maintained at levels in excess of the effective minimum requirements of the NAIC in the United States and OSFI in Canada. In any particular year, statutory capital and surplus amounts and RBC and MCCSR ratios may increase or decrease depending on a variety of factors, including the amount of statutory income or losses generated by our insurance subsidiaries (which is sensitive to equity and credit market conditions), the amount of additional capital our insurance subsidiaries must hold to support business growth, changes in their reserve requirements, the value of certain fixed-income and equity securities in their investment portfolios, the credit ratings of investments held in their portfolios, the value of certain derivative instruments, changes in interest rates, credit market volatility, changes in consumer behavior, as well as changes to the NAIC's RBC formula or the MCCSR calculation of OSFI. Many of these factors are outside of our control.

Our financial strength and credit ratings are significantly influenced by the statutory surplus amounts and RBC and MCCSR ratios of our insurance company subsidiaries. Ratings agencies may change their internal models, effectively increasing or decreasing the amount of statutory capital our insurance subsidiaries must hold to maintain their current ratings. In addition, ratings agencies may downgrade the invested assets held in our portfolio, which could result in a reduction of their capital and surplus. Changes in statutory accounting principles could also adversely impact our insurance subsidiaries' ability to meet minimum RBC, MCCSR and statutory capital and surplus requirements. There is no assurance that our insurance subsidiaries will not need additional capital or, if needed, that we will be able to provide it to maintain the targeted RBC and MCCSR levels to support their business operations.

The failure of any of our insurance subsidiaries to meet its applicable RBC and MCCSR requirements or minimum capital and surplus requirements could subject it to further examination or corrective action imposed by insurance regulators, including limitations on its ability to write additional business, supervision by regulators or seizure or liquidation. Any corrective action imposed could have a material adverse effect on our business, financial condition and results of operations. A decline in RBC or MCCSR also limits the ability of our insurance subsidiaries to pay dividends or make distributions and could be a factor in causing ratings agencies to downgrade the financial strength ratings of all our insurance subsidiaries. Such downgrades would have an adverse effect on our ability to write new insurance business and, therefore, could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to redeploy capital through reserve financing transactions.

From time to time, management considers methods for the deployment of capital, including through the use of redundant reserve financing transactions. Certain state regulators, as well as the NAIC, have been reviewing the use of captive insurance companies for the purpose of redundant reserve financing transactions, and it is uncertain whether state regulators will continue to approve such transactions going forward. Management currently intends to pursue a redundant reserve financing transaction for Primerica Life in 2014. However, there is a possibility that state regulators will not

## Table of Contents

approve such a transaction and, as a result, Primerica Life may not be able to redeploy capital to the Parent Company through reserve financing transactions.

A ratings downgrade by a ratings organization could materially adversely affect our business, financial condition and results of operations.

Each of our insurance subsidiaries, with the exception of Peach Re, has been assigned a financial strength rating by A.M. Best. Primerica Life currently also has an insurer financial strength rating from Standard & Poor's and Moody's. NBLIC, Primerica Life Canada, and Peach Re are not rated by Standard & Poor's and Moody's.

The financial strength ratings of our insurance subsidiaries are subject to periodic review using, among other things, the ratings agencies' proprietary capital adequacy models, and are subject to revision or withdrawal at any time. Insurance financial strength ratings are directed toward the concerns of policyholders and are not intended for the protection of stockholders or as a recommendation to buy, hold or sell securities. Our financial strength ratings will affect our competitive position relative to other insurance companies. If the financial strength ratings of our insurance subsidiaries fall below certain levels, some of our policyholders may move their business to our competitors. In addition, the models used by ratings agencies to determine financial strength are different from the capital requirements set by insurance regulators.

Ratings organizations review the financial performance and financial conditions of insurance companies, and provide opinions regarding financial strength, operating performance and ability to meet obligations to policyholders. A downgrade in the financial strength ratings of any of our insurance subsidiaries, or the announced potential for a downgrade, could have a material adverse effect on our business, financial condition and results of operations by, among other things:

- reducing sales of insurance products;
- adversely affecting our relationships with our sales representatives;
- materially increasing the amount of policy cancellations by our policyholders;
- requiring us to reduce prices to remain competitive; and
- adversely affecting our ability to obtain reinsurance at reasonable prices or at all.

If the rating agencies or regulators change their approach to financial strength ratings and statutory capital requirements, we may need to take action to maintain current ratings and capital adequacy ratios, which could have a material adverse effect on our business, financial condition and results of operations.

In addition to financial strength ratings of our insurance subsidiaries, the Parent Company currently has investment grade credit ratings from Standard & Poor's, Moody's, and A.M. Best for its senior unsecured debt. These ratings are indicators of a debt issuer's ability to meet the terms of debt obligations and are important factors in its ability to access liquidity in the debt markets. A rating downgrade by a rating agency can occur at any time if the rating agency perceives an adverse change in our financial condition, results of operations or ability to service debt. If such a downgrade occurs, it could have a material adverse effect on our financial condition and results of operations in many ways, including adversely limiting our access to capital in the unsecured debt market and potentially increasing the cost of such debt.

Credit deterioration in, and the effects of interest rate fluctuations on, our invested asset portfolio could materially adversely affect our business, financial condition and results of operations.

A large percentage of our invested asset portfolio is invested in fixed-income securities. As a result, credit deterioration and interest rate fluctuations could materially affect the value and earnings of our invested asset portfolio. Fixed-income securities decline in value if there is no active trading market for the securities or the market's impression of, or the ratings agencies' views on, the credit quality of an issuer worsens. During periods of declining market interest rates, any interest income we receive on variable interest rate investments would decrease, and we would be forced to invest the cash we receive as interest, return of principal on our investments and cash from operations in lower-yielding, high-grade instruments or in lower-credit instruments to maintain comparable returns. Issuers of fixed-income securities could also decide to prepay their obligations to borrow at lower market rates, which would increase our reinvestment risk. If interest rates generally increase, the market value of our fixed rate income portfolio decreases. Additionally, if the market value of any security in our invested asset portfolio decreases, we may realize losses if we deem the value of the security to be other-than-temporarily impaired. To the extent that any

fluctuations in fair value or interest rates are significant or we recognize impairments that are material, it could have a material adverse effect on our business, financial condition and results of operations.



Table of Contents

Valuation of our investments and the determination of whether a decline in the fair value of our invested assets is other-than-temporary are based on estimates that may prove to be incorrect.

U.S. GAAP requires that when the fair value of any of our invested assets declines and such decline is deemed to be other-than-temporary, we recognize a loss in either accumulated other comprehensive income or on our statement of income based on certain criteria in the period that such determination is made. Determining the fair value of certain invested assets, particularly those that do not trade on a regular basis, requires an assessment of available data and the use of assumptions and estimates. Once it is determined that the fair value of an asset is below its carrying value, we must determine whether the decline in fair value is other-than-temporary, which is based on subjective factors and involves a variety of assumptions and estimates.

There are certain risks and uncertainties associated with determining whether declines in market value are other-than-temporary. These include significant changes in general economic conditions and business markets, trends in certain industry segments, interest rate fluctuations, rating agency actions, changes in significant accounting estimates and assumptions and legislative actions. In the case of mortgage- and asset-backed securities, there is added uncertainty as to the performance of the underlying collateral assets. To the extent that we are incorrect in our determination of the fair value of our investment securities or our determination that a decline in their value is other-than-temporary, we may realize losses that never actually materialize or may fail to recognize losses within the appropriate reporting period.

The failure by any of our reinsurers to perform its obligations to us could have a material adverse effect on our business, financial condition and results of operations.

We extensively use reinsurance in the United States to diversify our risk and to manage our loss exposure to mortality risk. Reinsurance does not relieve us of our direct liability to our policyholders, even when the reinsurer is liable to us. We, as the insurer, are required to pay the full amount of death benefits even in circumstances where we are entitled to receive payments from the reinsurer. Due to factors such as insolvency, adverse underwriting results or inadequate investment returns, our reinsurers may not be able to pay the amounts they owe us on a timely basis or at all. Further, reinsurers might refuse or fail to pay losses that we cede to them or might delay payment. Since death benefit claims may be paid long after a policy is issued, we bear credit risk with respect to our reinsurers. The creditworthiness of our reinsurers may change before we can recover amounts to which we are entitled. Any such failure to pay by our reinsurers could have a material adverse effect on our business, financial condition and results of operations.

The failure by the affiliates of Citigroup who are parties to the Citigroup reinsurance transactions to perform their obligations to us under our coinsurance agreements could have a material adverse effect on our business, financial condition and results of operations.

Immediately prior to the IPO, we entered into four coinsurance agreements with three reinsurer affiliates of Citigroup pursuant to which we ceded between 80% and 90% of the risks and rewards of our term life insurance policies that were in force at year-end 2009. Under this arrangement, our current third-party reinsurance agreements remain in place. The largest of these transactions involved two coinsurance agreements between Primerica Life and Prime Reinsurance Company, Inc. ("Prime Re"), then a wholly owned subsidiary of Primerica Life. Pursuant to these reinsurance agreements, we distributed to Citigroup all of the issued and outstanding common stock of Prime Re. Prime Re was formed solely for the purpose of entering into these reinsurance transactions, had no operating history at the time the coinsurance agreements were executed and does not possess a financial strength rating from any rating agency. The other transactions were between (i) Primerica Life Canada and Financial Reassurance Company 2010 Ltd., a Bermuda reinsurer and wholly owned subsidiary of Citigroup, formed to operate solely for the purpose of reinsuring Citigroup-related risks and (ii) NBLIC and American Health and Life Insurance Company ("AHL"), a wholly owned insurance subsidiary of Citigroup that is rated by A.M. Best. Each of the three reinsurers entered into trust agreements with our respective insurance subsidiaries and a trustee pursuant to which the reinsurer placed assets (primarily treasury and fixed-income securities) in trust for such subsidiary's benefit to secure the reinsurer's obligations to such subsidiary. Each such coinsurance agreement requires each reinsurer to maintain assets in trust sufficient to give the subsidiary full credit for regulatory purposes for the insurance, which amount will not be less than the amount of the reserves for the reinsured liabilities. In addition, in the case of the reinsurance transactions between Prime Re and Primerica Life, Citigroup has agreed in a capital maintenance agreement to maintain Prime

Re's RBC above a specified minimum level, subject to a maximum amount being contributed by Citigroup. In the case of the reinsurance transaction between NBLIC and AHL, Citigroup has agreed to over-collateralize the assets in the trust for NBLIC for the life of the coinsurance agreement between NBLIC and AHL. Furthermore, our insurance subsidiaries have the right to recapture the business upon the occurrence of an event of default under their respective coinsurance agreement with the Citigroup affiliates subject to any applicable cure periods. While any such recapture would be at no cost to us, such recapture would result in a substantial increase in our insurance exposure and require us to be fully responsible for the management of the assets set aside to

## Table of Contents

support statutory reserves. The type of assets we might obtain as a result of a recapture may not be as liquid as our current invested asset portfolio and could result in an unfavorable impact on our risk profile.

There is no assurance that the relevant Citigroup reinsurer will pay the reinsurance obligations owed to us now or in the future or that it will pay these obligations on a timely basis. Notwithstanding the capital maintenance agreement between Prime Re and Citigroup and the initial over-collateralization of assets in trust for the benefit of our insurance companies, if any of the Citigroup reinsurers becomes insolvent, the amount in the trust account to support the obligations of such reinsurer is insufficient to pay such reinsurer's obligations to us and we fail to enforce our right to recapture the business, it could have a material adverse effect on our business, financial condition and results of operations.

### Risks Related to Our Investments and Savings Products Business

Our investment and savings products segment is heavily dependent on mutual fund and annuity products offered by a relatively small number of companies, and, if these products fail to remain competitive with other investment options or we lose our relationship with one or more of these fund companies or with the source of our annuity products, our business, financial condition and results of operations may be materially adversely affected.

We earn a significant portion of our earnings through our relationships with a small group of mutual fund and annuity companies. A decision by one or more of these companies to alter or discontinue their current arrangements with us could materially adversely affect our business, financial condition and results of operations. In addition, if any of our investment and savings products fail to achieve satisfactory investment performance, our clients may seek higher yielding alternative investment products, and we could experience higher redemption rates.

In recent years there has been an increase in the popularity of alternative investments, which we do not currently offer, principally index funds and exchange traded funds. These investment options typically have low fee structures and provide some of the attributes of mutual funds, such as risk diversification. If these products continue to gain traction among our client base as viable alternatives to mutual fund investments, our investment and savings products revenues could decline.

In addition to sales commissions and asset-based compensation, a portion of our earnings from investment and savings products comes from recordkeeping services that we provide to third parties and from fees earned for custodial services that we provide to clients with retirement plan accounts in the funds of these mutual fund companies. We also receive revenue sharing payments from each of these mutual fund companies. A decision by one or more of these fund companies to alter or discontinue their current arrangements with us would materially adversely affect our business, financial condition and results of operations.

The Company or its securities-licensed sales representatives' violations of, or non-compliance with, laws and regulations could expose us to material liabilities.

Our subsidiary broker-dealer and registered investment advisor, PFS Investments, is subject to federal and state regulation of its securities business. These regulations cover sales practices, trade suitability, supervision of registered representatives, recordkeeping, the conduct and qualification of officers and employees, the rules and regulations of the MSRB and state blue sky regulation. Investment advisory representatives are generally held to a higher standard of conduct than registered representatives. Our subsidiary, PSS, is a registered transfer agent engaged in the recordkeeping business and is subject to SEC regulation. Violations of laws or regulations applicable to the activities of PFS Investments or PSS, or violations by a third party with which PFS Investments or PSS contracts which improperly performs its task, could subject us to disciplinary actions and could result in the imposition of cease and desist orders, fines or censures, restitution to clients, disciplinary actions (including the potential suspension or revocation of its license by the SEC, or the suspension or expulsion from FINRA), and reputational damage, any of which could materially adversely affect our business, financial condition and results of operations.

Our Canadian dealer subsidiary, PFSL Investments Canada and its sales representatives are subject to the securities laws of the provinces and territories of Canada in which we sell our mutual fund products and those of third parties and to the rules of the MFDA, the self-regulatory organization governing mutual fund dealers. PFSL Investments Canada is subject to periodic review by both the MFDA and the provincial and territorial securities commissions to assess its compliance with, among other things, applicable capital requirements and sales practices and procedures.

These regulators have broad administrative powers, including the power to limit or restrict the conduct of our business for failure to comply with applicable laws or regulations. Possible sanctions that could be imposed include the suspension of individual sales representatives, limitations on the activities in which the dealer may engage, suspension or revocation of

Table of Contents

the dealer registration, censure or fines, any of which could materially adversely affect our business, financial condition and results of operations.

If heightened standards of conduct or more stringent licensing requirements, such as those proposed by the SEC and proposed and withdrawn by the DOL, are imposed on us or our sales representatives or selling compensation is reduced as a result of new legislation or regulations, it could have a material adverse effect on our business, financial condition and results of operations.

Our U.S. sales representatives are subject to federal and state regulation as well as state licensing requirements. PFS Investments, which is regulated as a broker-dealer, and our U.S. sales representatives are currently subject to general anti-fraud limitations under the Exchange Act and SEC rules and regulations, as well as other conduct standards prescribed by FINRA. These standards generally require that broker-dealers and their sales representatives disclose conflicts of interest that might affect the advice or recommendations they provide and require them to make suitable investment recommendations to their customers. In January 2011 under the authority of the Dodd-Frank Act, which gives the SEC the power to impose on broker-dealers a heightened standard of conduct that is currently applicable only to investment advisers, the SEC staff submitted a report to Congress in which it recommended that the SEC adopt a fiduciary standard of conduct for broker-dealers that is uniform with that of investment advisers. The SEC has slated the rule on its regulatory agenda for “long-term action” without a specific timetable.

In October 2010, the DOL published the DOL Proposed Rule, which would more broadly define the circumstances under which a person or entity may be considered a fiduciary for purposes of the prohibited transaction rules of IRC Section 4975. IRC Section 4975 prohibits certain types of compensation paid by third parties with respect to transactions involving assets in qualified accounts, including IRAs. In September 2011, the DOL withdrew the DOL Proposed Rule. The DOL has indicated that it will re-propose a similar fiduciary rule in 2014. If PFS Investments and its securities-licensed representatives are deemed to be fiduciaries under a rule similar to the DOL Proposed Rule, our ability to receive and retain certain types of compensation paid by third parties with respect to both new and existing assets in qualified accounts could be significantly limited.

IRAs and other qualified accounts are a core component of the Investment and Savings Products segment of our business and accounted for a significant portion of the total revenue of this segment for the year ended December 31, 2013. Thus, if a fiduciary rule similar to the DOL Proposed Rule is re-proposed and adopted, we would expect to substantially restructure our current business model for qualified accounts. Such restructuring could make it significantly more difficult for us and our sales representatives to profitably serve the middle-income market and could result in a significant reduction in the number of IRAs and qualified accounts that we serve, which could materially adversely affect the amount of revenue that we generate from this line of business and ultimately could result in a decline in the number of our securities-licensed sales representatives. Furthermore, our licensed representatives could be required to obtain additional securities licenses, which they may not be willing or able to obtain.

The form, substance and timing of any re-proposed or final rule are unknown at this time. It is possible that a rule could be adopted in a form that does not materially adversely affect us. If re-proposed and adopted in the form initially proposed, however, the DOL Proposed Rule could have a materially adverse effect on our business, financial condition and results of operations.

Heightened standards of conduct as a result of either of the above proposals or another similar proposed rule or regulation could also increase the compliance and regulatory burdens on our representatives, and could lead to increased litigation and regulatory risks, changes to our business model, a decrease in the number of our securities-licensed representatives and a reduction in the products we offer to our clients, any of which could have a material adverse effect on our business, financial condition and results of operations.

If our suitability policies and procedures were deemed inadequate, it could have a material adverse effect on our business, financial condition and results of operations.

We review the account applications that we receive for our investment and savings products for suitability. While we believe that the policies and procedures we implemented to help our sales representatives assist clients in making appropriate and suitable investment choices are reasonably designed to achieve compliance with applicable securities laws and regulations, it is possible that the SEC, FINRA or MFDA may not agree. Further, we could be subject to

regulatory actions or private litigation, which could materially adversely affect our business, financial condition and results of operations.

## Table of Contents

Our sales force support tools may fail to appropriately identify suitable investment products.

Our support tools are designed to educate clients, help identify their financial needs, and introduce the potential benefits of our products. There could be a risk that the assumptions and methods of analyses embedded in our support tools could be successfully challenged and subject us to regulatory action or private litigation, which could materially adversely affect our business, financial condition and results of operations.

Non-compliance with applicable regulations could lead to revocation of our subsidiary's status as a non-bank custodian.

PFS Investments is a non-bank custodian of retirement accounts, as permitted under Treasury Regulation 1.408-2. A non-bank custodian is an entity that is not a bank and that is permitted by the IRS to act as a custodian for retirement plan account assets of our clients. The IRS retains authority to revoke or suspend that status if it finds that PFS Investments is unwilling or unable to administer retirement accounts in a manner consistent with the requirements of the applicable regulations. Revocation of PFS Investments' non-bank custodian status would affect its ability to earn revenue for providing such services and, consequently, could materially adversely affect our business, financial condition and results of operations.

### Other Risks Related to Our Business

Changes in accounting standards can be difficult to predict and could adversely impact how we record and report our financial condition and results of operations.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. U.S. GAAP continues to evolve and, as a result, may change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to anticipate and implement and can materially impact how we record and report our financial condition and results of operations. For example, the Financial Accounting Standards Board's ("FASB") current insurance contracts accounting project could, among other things, significantly change the way we measure insurance liabilities on our Consolidated Balance Sheets and the way we present earnings on our statement of income. This project, in addition to other projects such as the FASB's financial instruments accounting project, could adversely impact both our financial condition and results of operations as reported on a U.S. GAAP basis as well as our statutory capital calculations.

The effects of economic down cycles in the United States and Canada could materially adversely affect our business, financial condition and results of operations.

Our business, financial condition and results of operations have been materially adversely affected by economic downturns in the United States and Canada. Economic downturns, which are often characterized by higher unemployment, lower family income, lower valuation of retirement savings accounts, lower corporate earnings, lower business investment and lower consumer spending, have adversely affected the demand for the term life insurance, investment and other financial products that we sell. Future economic down cycles could severely adversely affect new sales and cause clients to liquidate mutual funds and other investments sold by our sales representatives. This could cause a decrease in the asset value of client accounts, reduce our trailing commission revenues and result in other-than-temporary-impairments in our invested asset portfolio. In addition, we may experience an elevated incidence of lapses or surrenders of insurance policies, and some of our policyholders may choose to defer paying insurance premiums or stop paying insurance premiums altogether. Further, volatility in equity markets or downturns could discourage purchases of the investment products that we distribute and could have a materially adverse effect on our business, including our ability to recruit and retain sales representatives.

We are subject to various federal laws and regulations in the United States and Canada, changes in which or violations of which may require us to alter our business practices and could materially adversely affect our business, financial condition and results of operations.

In the United States, we are subject to many regulations, including the Gramm-Leach-Bliley Act and its implementing regulations, including Regulation S-P, the Fair Credit Reporting Act, the Right to Financial Privacy Act, the Foreign Corrupt Practices Act, the Sarbanes-Oxley Act, the Telemarketing and Consumer Fraud and Abuse Prevention Act, the Telephone Consumer Protection Act, the FTC Act, and the Electronic Funds Transfer Act. We are also subject to anti-money laundering laws and regulations, including the Bank Secrecy Act, as amended by the Patriot Act, which

requires us to develop and implement customer identification and risk-based anti-money laundering programs, report suspicious activity and maintain certain records. Further, we are required to follow certain economic and trade sanctions programs that are

30

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Table of Contents

administered by the Office of Foreign Asset Control that prohibit or restrict transactions with suspected countries, their governments, and in certain circumstances, their nationals.

In Canada, we are subject to provincial and territorial regulations, including consumer protection legislation that pertains to unfair and misleading business practices, provincial and territorial credit reporting legislation that provides requirements in respect of obtaining credit bureau reports and providing notices of decline, the Personal Information Protection and Electronic Documents Act, the Competition Act, the Corruption of Foreign Public Officials Act, the Telecommunications Act and certain Canadian Radio-television and Telecommunications Commission Telecom Decisions in respect of unsolicited telecommunications. We are also subject to the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and its accompanying regulations, which require us to develop and implement money laundering policies and procedures relating to customer indemnification, reporting and recordkeeping, develop and maintain ongoing training programs for employees, perform a risk assessment on our business and clients and institute and document a review of our anti-money laundering program at least once every two years. We are also required to follow certain economic and trade sanctions and legislation that prohibit us from, among other things, engaging in transactions with, and providing services to, persons on lists created under various federal statutes and regulations and blocked persons and foreign countries and territories subject to Canadian sanctions administered by Foreign Affairs and International Trade Canada and the Department of Public Safety Canada. Changes in, or violations of, any of these laws or regulations may require additional compliance procedures, or result in enforcement proceedings, sanctions or penalties, which could have a material adverse effect on our business, financial condition and results of operations.

Litigation and regulatory investigations and actions may result in financial losses and harm our reputation.

We face a risk of litigation and regulatory investigations and actions in the ordinary course of operating our businesses. From time to time, we are subject to private litigation and regulatory investigations as a result of sales representative misconduct. In addition, we may become subject to lawsuits alleging, among other things, issues relating to sales or underwriting practices, payment of improper sales commissions, claims issues, product design and disclosure, additional premium charges for premiums paid on a periodic basis, denial or delay of benefits, pricing and sales practices issues. Life insurance companies have historically been subject to substantial litigation resulting from policy disputes and other matters. If we become subject to similar litigation, any judgment or settlement of such claims could have a material adverse effect on our business, financial condition and results of operations.

In addition, we are subject to litigation arising out of our general business activities. For example, we have a large sales force, and we could face claims by some of our sales representatives arising out of their relationship with us. In particular, the memorandum of understanding that we signed in connection with the Florida Retirement System matters may not result in resolution with the claimants. In such event, the pending litigation with the existing claimants would continue, and, in any event, new claimants may emerge. We are also subject to various regulatory inquiries, such as information requests, subpoenas and books and record examinations, from state, provincial and federal regulators and other authorities. A substantial legal liability or a significant regulatory action against us could have a material adverse effect on our business, financial condition and results of operations.

Moreover, even if we ultimately prevail in any litigation, regulatory action or investigation, we could suffer significant reputational harm and we could incur significant legal expenses, either of which could have a material adverse effect on our business, financial condition and results of operations. In addition, increased regulatory scrutiny and any resulting investigations or proceedings could result in new legal precedents and industry-wide regulations or practices that could materially adversely affect our business, financial condition and results of operations.

The current legislative and regulatory climate with regard to financial services may adversely affect our business, financial condition, and results of operations.

The volume of legislative and regulatory activity relating to financial services has increased substantially in recent years, and we expect that the level of enforcement actions and investigations by federal regulators will increase correspondingly. The same factors that have contributed to legislative, regulatory and enforcement activity at the federal level are likely to contribute to heightened activity at the state and provincial level. If we or our sales representatives become subject to new requirements or regulations, it could result in increased litigation, regulatory risks, changes to our business model, a decrease in the number of our securities-licensed representatives or a reduction

in the products we offer to our clients or the profits we earn, which could have a material adverse effect on our business, financial condition and results of operations.

31

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Table of Contents

The inability of our subsidiaries to pay dividends or make distributions or other payments to us in sufficient amounts would impede our ability to meet our obligations and return capital to our stockholders.

We are a holding company, and we have no significant operations. Our primary asset is the capital stock of our subsidiaries and our primary liability is our senior unsecured notes. We rely primarily on dividends and other payments from our subsidiaries to meet our operating costs, other corporate expenses, senior unsecured notes obligations, as well as to return capital to our stockholders. The ability of our subsidiaries to pay dividends to us depends on their earnings, covenants contained in existing and future financing or other agreements and on regulatory restrictions. The ability of our insurance subsidiaries to pay dividends will further depend on their statutory income and surplus. If the cash we receive from our subsidiaries pursuant to dividend payments and tax sharing arrangements is insufficient for us to fund our obligations or if a subsidiary is unable to pay dividends to us, we may be required to raise cash through the incurrence of debt, the issuance of equity or the sale of assets. However, given the historic volatility in the capital markets, there is no assurance that we would be able to raise cash by these means.

The jurisdictions in which our insurance subsidiaries are domiciled impose certain restrictions on their ability to pay dividends to us. In the United States, these restrictions are based, in part, on the prior year's statutory income and surplus. In general, dividends up to specified levels are considered ordinary and may be paid without prior approval.

Dividends in larger amounts are subject to approval by the insurance commissioner of the state of domicile. In Canada, dividends can be paid, subject to the paying insurance company continuing to meet the regulatory requirements for capital adequacy and liquidity and upon 15 days' minimum notice to OSFL. No assurance is given that more stringent restrictions will not be adopted from time to time by jurisdictions in which our insurance subsidiaries are domiciled, and such restrictions could have the effect, under certain circumstances, of significantly reducing dividends or other amounts payable to us by our subsidiaries without prior approval by regulatory authorities. In addition, in the future, we may become subject to debt covenants or other agreements that limit our ability to return capital to our stockholders. The ability of our insurance subsidiaries to pay dividends to us is also limited by our need to maintain the financial strength ratings assigned to us by the ratings agencies.

If any of our subsidiaries were to become insolvent, liquidate or otherwise reorganize, we, as sole stockholder, will have no right to proceed against the assets of that subsidiary. Furthermore, with respect to our insurance subsidiaries, we, as sole stockholder, will have no right to cause the liquidation, bankruptcy or winding-up of the subsidiary under the applicable liquidation, bankruptcy or winding-up laws, although, in Canada, we could apply for permission to cause liquidation. The applicable insurance laws of the jurisdictions in which each of our insurance subsidiaries is domiciled would govern any proceedings relating to that subsidiary. The insurance authority of that jurisdiction would act as a liquidator or rehabilitator for the subsidiary. Both creditors of the subsidiary and policyholders (if an insurance subsidiary) would be entitled to payment in full from the subsidiary's assets before we, as the sole stockholder, would be entitled to receive any distribution from the subsidiary.

If the ability of our insurance or non-insurance subsidiaries to pay dividends or make other distributions or payments to us is materially restricted by regulatory requirements, bankruptcy or insolvency, or our need to maintain our financial strength ratings, or is limited due to operating results or other factors, it could materially adversely affect our ability to fund our obligations and return capital to our stockholders.

A significant change in the competitive environment in which we operate could negatively affect our ability to maintain or increase our market share and profitability.

We face competition in all of our business lines. Our competitors include financial services companies, mutual fund companies, banks, investment management firms, broker-dealers, insurance companies and direct sales companies. In many of our product lines, we face competition from competitors that have greater market share or breadth of distribution, offer a broader range of products, services or features, assume a greater level of risk, have lower profitability expectations or have higher financial strength ratings than we do. A significant change in this competitive environment could materially adversely affect our ability to maintain or increase our market share and profitability.

The loss of key employees and sales force leaders could negatively affect our financial results and impair our ability to implement our business strategy.

Our success substantially depends on our ability to attract and retain key members of our senior management team. The efforts, personality and leadership of our senior management team have been, and will continue to be, critical to

our success. The loss of service of our senior management team due to disability, death, retirement or some other cause could reduce our ability to successfully motivate our sales representatives and implement our business plan and have a material adverse effect on our business, financial condition and results of operations. Although our Co-Chief Executive

## Table of Contents

Officers, as well as our other senior executives, have entered into employment agreements with us, there is no assurance that they will complete the term of their employment agreements or renew them upon expiration. In addition, the loss of key RVPs for any reason could negatively affect our financial results, impair our ability to attract new sales representatives and hinder future growth.

If one of our significant information technology systems fails, if its security is compromised or if the Internet becomes disabled or unavailable, our business, financial condition and results of operations may be materially adversely affected.

Our business is highly dependent upon the effective operation of our information technology systems, which are centered on a mainframe platform supported by servers housed at our home office and back-up site. We rely on these systems throughout our business for a variety of functions. Our information technology systems run a variety of third-party and proprietary software, including POL (our website portal to our sales force), our insurance administration system, Virtual Base Shop (our paperless office for RVPs), TurboApps (our point-of-sale data collection tool for product/ recruiting applications), our licensing decision and support system and our compensation system.

We are also dependent on information technology systems to record and process customer transactions and other components of our financial statements. We could experience a failure of one or more of these systems or could fail to complete all necessary data reconciliation or other conversion controls when implementing new software systems. Information security risks also exist with respect to the use of electronic mobile devices such as laptops and smartphones, which are particularly vulnerable to loss and theft. These risks are also applicable where we rely on outside vendors to provide services, which may operate in a cloud environment. We are dependent on certain third-party vendors to operate secure and reliable systems, which may include data transfers over the Internet.

Despite the implementation of security and back-up measures, our information technology systems may be vulnerable to physical or electronic intrusions, viruses or other attacks, programming errors and similar disruptions. The failure of any one of these systems for any reason could cause significant interruptions to our operations, which could have a material adverse effect on our business, financial condition and results of operations. We retain confidential information in our information technology systems, and we rely on industry standard commercial technologies to maintain the security of those systems. Anyone who is able to circumvent our security measures and penetrate our information technology systems could access, view, misappropriate, alter, or delete information in the systems, including personally identifiable client information and proprietary business information. In addition, an increasing number of jurisdictions require that clients be notified if a security breach results in the disclosure of personally identifiable client information.

Operating system failures, ineffective system implementation, or the compromise of security with respect to internal or external operating systems or portable electronic devices could subject us to significant civil and criminal liability, harm our reputation, interrupt our business operations, deter people from purchasing our products, and adversely affect our internal control over financial reporting, business, financial condition, results of operations, or cash flows. In the event of a disaster, our business continuity plan may not be sufficient, which could have a material adverse effect on our business, financial condition and results of operations.

Our infrastructure supports a combination of local and remote recovery solutions for business resumption in the event of a disaster. In the event of either a campus-wide destruction or the inability to access our main campus in Duluth, Georgia, our business recovery plan provides for our employees to perform their work functions via a dedicated business recovery site located 25 miles from our main campus or by remote access from an employee's home.

However, in the event of a full scale local or regional disaster, our business recovery plan may be inadequate, and our employees and sales representatives may be unable to carry out their work, which could have a material adverse effect on our business, financial condition and results of operations.

We may be materially adversely affected by currency fluctuations in the United States dollar versus the Canadian dollar.

A weaker Canadian dollar relative to the U.S. dollar would result in lower levels of reported revenues, net income, assets, liabilities and accumulated other comprehensive income in our U.S. dollar reporting currency financial statements. Significant exchange rate fluctuations between the U.S. dollar and Canadian dollar could have a material

adverse effect on our financial condition and results of operations.

Table of Contents

## ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

## ITEM 2. PROPERTIES.

We lease all of our office, warehouse, printing, and distribution properties. Our executive and home office operations for substantially all of our domestic U.S. operations (except New York) are located in Duluth, Georgia, in a build-to-suit facility completed in 2013. The initial lease term for the facility is 15 years.

We also lease continuation of business, print/distribution, and warehouse space in or around Duluth, Georgia, under leases expiring in January 2018, June 2018 and June 2023, respectively.

NBLIC subleases general office space in Long Island City, New York, from a subsidiary of Citigroup under a sublease expiring in August 2014.

In Canada, we lease general office space in Mississauga, Ontario, under a lease expiring in April 2018 and warehouse and printing operation space in Mississauga, Ontario, under a lease also expiring in April 2018.

Each of these leased properties is used by each of our operating segments, with the exception of our NBLIC office space, which is not used by our Investment and Savings Products segment.

We believe that our existing facilities in the U.S. and Canada are adequate for our current requirements and for our operations in the foreseeable future.

For additional details on our operating leases, see “Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Contractual Obligations.”

## ITEM 3. LEGAL PROCEEDINGS.

We are involved from time to time in legal disputes, regulatory inquires and arbitration proceedings in the normal course of business. Additional information regarding certain legal proceedings to which we are a party is described under “Contingent Liabilities” in Note 15 (Commitments and Contingent Liabilities) to our consolidated financial statements included elsewhere in this report, and such information is incorporated herein by reference. As of the date of this report, we do not believe any pending legal proceeding to which Primerica or any of its subsidiaries is a party is required to be disclosed pursuant to this item.

## ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

## ITEM X. EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers are elected or appointed by our Board of Directors and hold office until their successors are elected and qualified, or until their death, resignation or removal, subject to the terms of applicable employment agreements. The name, age at February 27, 2014, and position of each of our executive officers are presented below.

Name	Age	Position
D. Richard Williams	57	Chairman of the Board and Co-Chief Executive Officer
John A. Addison, Jr.	56	Chairman of Primerica Distribution, Co-Chief Executive Officer and Director
Glenn J. Williams	54	President
Michael C. Adams	57	Executive Vice President and Chief Business Technology Officer
Chess E. Britt	57	Executive Vice President and Chief Marketing Officer
Jeffrey S. Fendler	57	Executive Vice President and Chief Compliance and Risk Officer
Gregory C. Pitts	51	Executive Vice President and Chief Operating Officer
Alison S. Rand	46	Executive Vice President and Chief Financial Officer
Peter W. Schneider	57	Executive Vice President, General Counsel and Chief Administrative Officer
William A. Kelly	58	President of PFS Investments

Table of Contents

Set forth below is biographical information concerning our executive officers.

D. Richard Williams was elected to our Board of Directors and began serving as Chairman in October 2009. He has served as our Co-Chief Executive Officer since 1999 and has served our company in various capacities since 1989. Mr. Williams earned both his B.S. degree in 1978 and his M.B.A. in 1979 from the Wharton School of the University of Pennsylvania. Mr. Williams serves on the Board of Trustees for the Woodruff Arts Center, the Board of Directors of the Anti-Defamation League Southeast Region and the Atlanta Area Council of the Boy Scouts of America.

John A. Addison, Jr. was elected to our Board of Directors in October 2009. He is the Chairman of Primerica Distribution, has served as our Co-Chief Executive Officer since 1999 and has served our company in various capacities since 1982. Mr. Addison earned his B.A. in economics from the University of Georgia in 1979 and his M.B.A. from Georgia State University in 1988.

Glenn J. Williams has served as President since 2005, as Executive Vice President from 2000 to 2005 and in various capacities at our company since 1983. Mr. Williams earned his B.S. in education from Baptist University of America in 1981. He serves on the board of the Georgia Baptist Foundation.

Michael C. Adams has served as Chief Business Technology Officer since April 2010, as Executive Vice President responsible for business technology since 1998 and in various capacities at our company since 1980. Mr. Adams earned his B.A. in business and economics from Hendrix College in 1978.

Chess E. Britt has served as Chief Marketing Officer since April 2010, as Executive Vice President responsible for marketing administration and field communications since 1995 and in various capacities at our company since 1982. Mr. Britt earned his B.A. in business administration from the University of Georgia in 1978. He serves on the Board of Directors of the Gwinnett Chamber of Commerce.

Jeffrey S. Fendler has served as Executive Vice President and Chief Compliance and Risk Officer of our company since February 2014. He served as President of Primerica Life, a subsidiary of Primerica, from 2005 through January 2014 and in various capacities at our company since 1980. Mr. Fendler received a B.A. in economics from Tulane University. He is a member of Operation Hope's National Board and is the Co-Chair of Operation Hope's Southeastern Region Board.

Gregory C. Pitts has served as Executive Vice President and Chief Operating Officer since December 2009, as Executive Vice President since 1995 with responsibilities within the Term Life Insurance and Investment and Savings Products segments and information technology division and in various capacities at our company since 1985. Mr. Pitts earned his B.A. in general business from the University of Arkansas in 1985.

Alison S. Rand has served as Executive Vice President and Chief Financial Officer since 2000 and in various capacities at our company since 1995. Prior to 1995, Ms. Rand worked in the audit department of KPMG LLP. Ms. Rand earned her B.S. in accounting from the University of Florida in 1990 and is a certified public accountant. She is a board member of the Atlanta Children's Shelter and the Partnership Against Domestic Violence. She also serves on the Terry College of Business Executive Education CFO Roundtable Advisory Board.

Peter W. Schneider has served as Executive Vice President, General Counsel and Chief Administrative Officer since 2000. He served as Corporate Secretary from 2000 through January 2014. He worked at the law firm of Rogers & Hardin LLP as a partner from 1988 to 2000. Mr. Schneider earned both his B.S. in political science and industrial relations in 1978 and J.D. in 1981 from the University of North Carolina at Chapel Hill. He serves on the Boards of Directors of the Georgia Chamber of Commerce, the Northwest YMCA and the Carolina Center for Jewish Studies.

William A. Kelly has overseen Primerica Life Insurance Company of Canada, a subsidiary of Primerica, since 2009, has served as President of PFS Investments, a subsidiary of Primerica, since 2005 and has served our company in various capacities since 1985. Mr. Kelly graduated from the University of Georgia in 1979 with a B.B.A. in accounting.



Table of Contents

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

## Quarterly Common Stock Prices and Dividends

The common stock of Primerica, Inc. ("Primerica", "we", "us" or the "Parent Company") is listed for trading on the New York Stock Exchange ("NYSE") under the symbol "PRI". The quarterly high and low sales prices for our common stock as reported on the NYSE and the dividends paid per quarter for the periods indicated were as follows:

	High	Low	Dividend
2013			
4th quarter	\$44.22	\$38.74	\$0.11
3rd quarter	42.37	36.42	0.11
2nd quarter	37.93	31.13	0.11
1st quarter	34.35	30.38	0.11
2012			
4th quarter	\$30.08	\$27.22	\$0.09
3rd quarter	30.29	26.02	0.07
2nd quarter	26.88	23.28	0.05
1st quarter	26.15	22.92	0.03
Dividends			

We have paid quarterly dividends to our stockholders totaling approximately \$25.1 million and \$14.7 million in 2013 and 2012, respectively.

As of February 14, 2014, we had 50 holders of record of our common stock. We currently expect to continue to pay quarterly cash dividends to holders of our common stock comparable to those paid in 2013 on a per-share basis. Our payment of cash dividends is at the discretion of our Board of Directors in accordance with applicable law after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs and plans for growth. Under Delaware law, we can only pay dividends either out of surplus or out of the current or the immediately preceding year's earnings. Therefore, no assurance is given that we will continue to pay any dividends to our common stockholders, or as to the amount of any such dividends.

We are a holding company and have no operations. Our primary asset is the capital stock of our operating subsidiaries. The states in which our U.S. insurance company subsidiaries are domiciled impose certain restrictions on our insurance subsidiaries' ability to pay dividends to us. Our Canadian subsidiary can pay dividends subject to meeting regulatory requirements for capital adequacy and liquidity with appropriate minimum notice to the Office of the Superintendent of Financial Institutions Canada ("OSFI"). In addition, in the future, we may become subject to debt instruments or other agreements that limit our ability to pay dividends. See Note 14 (Statutory Accounting and Dividend Restrictions) to our consolidated financial statements included elsewhere in this report.

## Issuer Purchases of Equity Securities

Depending on market conditions, shares may be repurchased from time to time at prevailing market prices through open market or privately negotiated transactions. Our Board of Directors has authorized a share repurchase program, and we expect to repurchase up to \$150 million of our outstanding common stock. The Parent Company has no obligation to repurchase any shares. Subject to applicable corporate securities laws, repurchases may be made at such times and in such amounts as management deems appropriate. Repurchases under a publicly announced program can be discontinued at any time management believes additional repurchases are not warranted.

During the quarter ended December 31, 2013, we did not repurchase any shares of our common stock.

For more information on our share repurchases, see Note 11 (Stockholders' Equity) to our consolidated financial statements included elsewhere in this report.



Table of Contents

## Securities Authorized for Issuance under Equity Compensation Plans

We have two compensation plans under which our equity securities are authorized for issuance. The Primerica, Inc. Amended and Restated 2010 Omnibus Incentive Plan was approved by our stockholders in May 2011. The Primerica, Inc. Stock Purchase Plan for Agents and Employees was approved by our sole stockholder in March 2010. The following table sets forth certain information relating to these equity compensation plans at December 31, 2013.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans	
Equity compensation plans approved by stockholders:				
Primerica, Inc. Amended and Restated 2010 Omnibus Incentive Plan	1,225,658	(1) \$ 32.63	(2) 2,757,378	(3)
Primerica, Inc. Stock Purchase Plan for Agents and Employees	—	—	2,167,432	(4)
Total	1,225,658	\$ 32.63	4,924,810	
Equity compensation plans not approved by stockholders	n/a	n/a	n/a	

(1) Consists of 1,091,436 and 134,222 shares of our common stock to be issued in connection with outstanding restricted stock units ("RSUs") and options, respectively.

(2) The options outstanding have a weighted average exercise price of \$32.63.

(3) The number of shares of our common stock available for future issuance is 10,800,000 less the cumulative number of awards granted under the plan plus the cumulative number of awards canceled under the plan.

(4) The number of shares of our common stock available for future issuance is 2,500,000 less the cumulative number of shares issued under the plan.

## Stock Performance Table

The following graph compares the performance of our common stock since the initial public offering ("IPO") to the Standard & Poor's ("S&P") MidCap 400 Index, Russell 2000 Index, and the S&P Insurance Index by assuming \$100 was invested in each investment option as of April 1, 2010, the date of the IPO. The S&P MidCap 400 Index measures the performance of the United States middle market capitalization ("mid-cap") equities sector. The Russell 2000 Index measures the performance of the small market capitalization ("small-cap") segment in the United States. The S&P Insurance Index is a capitalization-weighted index of domestic equities traded on the NYSE and NASDAQ. Our common stock is included in the S&P MidCap 400 and the Russell 2000 stock indices.

Table of Contents

Index	Period Ended								
	04/01/10	06/30/10	12/31/10	06/30/11	12/31/11	06/30/12	12/31/12	06/30/13	12/31/13
Primerica Inc.	\$100.00	\$142.93	\$161.82	\$146.87	\$155.80	\$179.79	\$202.98	\$254.93	\$293.78
S&P 500 Insurance	100.00	90.50	102.59	102.39	94.09	101.19	112.05	139.26	164.39
S&P MidCap 400	100.00	89.57	115.00	124.85	113.01	121.94	133.22	152.65	177.84
Russell 2000	100.00	89.37	115.63	122.81	110.80	120.25	128.92	149.36	178.97

In early 2013, Primerica's common stock was added to the S&P MidCap 400 index, which is one of the most widely used mid-cap company indices in the United States. We believe that other mid-cap companies included in the S&P MidCap 400 index are a more relevant peer group than small-cap companies. Therefore, we do not intend to report the stock index performance of the Russell 2000 index in our subsequent annual reports on Form 10-K.

**ITEM 6. SELECTED FINANCIAL DATA.**

The selected financial data should be read in conjunction with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and accompanying notes included elsewhere in this report.

Prior to April 1, 2010, we were wholly owned by Citigroup Inc. ("Citigroup"). In April 2010, we completed a series of transactions (the "corporate reorganization") that included an initial public offering of our common stock by Citigroup pursuant to the Securities Act of 1933, as amended (the "Securities Act"). The selected historical income statement data for the years ended December 31, 2010 and 2009 may not be indicative of the revenues and expenses that would have existed or resulted if we had operated independently of Citigroup during those years. Similarly, the selected historical balance sheet data as of December 31, 2009 may not be indicative of the assets and liabilities that would have existed or resulted if we had operated independently of Citigroup at the time. The selected historical financial data are not necessarily indicative of the financial position or results of operations as of any future date or for any future period.

Table of Contents

	Year ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands, except per-share amounts)				
Statements of income data					
Revenues:					
Direct premiums	\$2,302,069	\$2,267,975	\$2,229,467	\$2,181,074	\$2,112,781
Ceded premiums	(1,644,158 )	(1,663,753 )	(1,703,075 )	(1,450,367 )	(610,754 )
Net premiums	657,911	604,222	526,392	730,707	1,502,027
Commission and fees	471,808	429,044	414,471	383,984	336,822
Net investment income	88,752	100,804	108,601	165,111	351,326
Realized investment gains (losses), including other-than-temporary impairment losses	6,246	11,382	6,440	34,145	(21,970 )
Other, net	42,731	45,263	47,189	47,916	52,196
Total revenues	1,267,448	1,190,715	1,103,093	1,361,863	2,220,401
Benefits and expenses:					
Benefits and claims	301,475	278,747	242,696	317,703	600,273
Amortization of deferred policy acquisition costs	129,183	118,598	104,034	147,841	352,257
Sales commissions	232,237	204,569	191,722	180,054	162,756
Insurance expenses	108,658	96,541	89,192	105,132	179,592
Insurance commissions	22,471	27,555	38,618	48,182	50,750
Interest expense	35,018	33,101	27,968	20,872	—
Other operating expenses	187,208	164,716	164,954	180,610	132,978
Total benefits and expenses	1,016,250	923,827	859,184	1,000,394	1,478,606
Income before income taxes	251,198	266,888	243,909	361,469	741,795
Income taxes	88,473	93,082	86,718	129,013	259,114
Net income	\$162,725	\$173,806	\$157,191	\$232,456	\$482,681
Earnings per share — basic	\$2.87	\$2.77	\$2.11	\$3.09	(1) n/a
Earnings per share — diluted	\$2.83	\$2.71	\$2.08	\$3.06	(1) n/a
Dividends per common share	\$0.44	\$0.24	\$0.10	\$0.02	n/a
Balance sheet data					
Investments	\$1,835,403	\$1,956,536	\$2,021,504	\$2,153,584	\$6,471,448
Cash and cash equivalents	149,189	112,216	136,078	126,038	602,522
Due from reinsurers	4,055,054	4,005,194	3,855,318	3,731,002	851,635
Deferred policy acquisition costs, net	1,208,466	1,066,422	904,485	738,946	2,520,251
Total assets	10,329,950	10,337,877	9,851,820	9,769,409	13,429,883
Future policy benefits	5,063,103	4,850,488	4,614,860	4,409,183	4,197,454
Notes payable	374,481	374,433	300,000	300,000	—
Total liabilities	9,107,923	9,062,461	8,525,170	8,412,881	8,662,612
Stockholders' equity	1,222,027	1,275,416	1,326,650	1,356,528	4,767,271

Calculated on a pro forma basis using weighted-average shares, including the shares issued or issuable upon lapse  
(1) of restrictions following our April 1, 2010 corporate reorganization as though they had been issued and outstanding on January 1, 2010.



Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to inform the reader about matters affecting the financial condition and results of operations of Primerica, Inc. (the "Parent Company") and its subsidiaries (collectively, "we", "us" or the "Company") for the three-year period ended December 31, 2013. As a result, the following discussion should be read in conjunction with the consolidated financial statements and accompanying notes that are included herein. This discussion contains forward-looking statements that constitute our plans, estimates and beliefs. These forward-looking statements involve numerous risks and uncertainties, including, but not limited to, those discussed in "Risk Factors". Actual results may differ materially from those contained in any forward-looking statements.

This MD&A is divided into the following sections:

- Business Trends and Conditions
- Factors Affecting Our Results
- Critical Accounting Estimates
- Results of Operations
- Financial Condition
- Liquidity and Capital Resources

**Business Trends and Conditions**

The relative strength and stability of financial markets and economies in the United States and Canada affect our growth and profitability. Our business is, and we expect will continue to be, influenced by a number of industry-wide and product-specific trends and conditions.

Economic conditions, including unemployment levels and consumer confidence, influence investment and spending decisions by middle income consumers, who are generally our primary clients. These conditions and factors also impact prospective recruits' perceptions of the business opportunity that becoming a Primerica sales representative offers, which can drive or dampen recruiting. Consumer spending and borrowing levels affect how consumers evaluate their savings and debt management plans. In addition, interest rates and equity market returns impact consumer demand for the savings and investment products we distribute. The effects of these trends and conditions are discussed in the Results of Operations section below.

**Recruiting and Sales Representatives.** New recruits declined in 2013 to 186,251 new recruits from 191,752 new recruits in 2012. For the year ended December 31, 2013, recruiting lagged prior year activity due to the positive impact of special incentive programs and competitions during the first quarter of 2012, which resulted in higher recruiting levels in the first half of 2012. This decline was partially offset by higher recruiting during the second half of 2013 following our biennial convention.

Our ability to increase the size of our sales force is largely based on the success of our recruiting efforts and our ability to train and motivate recruits to get licensed to sell life insurance. We believe that recruitment and licensing levels are important to sales force trends, and growth in recruiting and licensing is usually indicative of future growth in the overall size of the sales force. Recruiting results do not always result in commensurate changes in the size of our licensed sales force because new recruits may obtain the requisite licenses at rates above or below historical levels. The size of our life-licensed sales force increased to 95,566 sales representatives as of December 31, 2013 from 92,373 sales representatives at December 31, 2012, primarily due to lower non-renewals and terminations during 2013.

The Canadian Insurance Services Regulatory Organizations ("CISRO") is developing a new unified provincial life insurance licensing examination program to be implemented in early 2016 that could significantly increase the cost, time and difficulty for our agents to obtain their life insurance licenses in Canada. If CISRO's new licensing system is implemented as currently described, it could ultimately result in a decline in the number of our licensed representatives in Canada, and our business could be materially adversely affected. We are actively monitoring the situation and are working closely with Canadian regulators to try to manage the potential impacts to our business.

Term Life Insurance Product Sales and Face Amount In Force. We issued 214,617 new life insurance policies in 2013 compared with 222,558 new policies in 2012. Sales of our term life insurance products were higher during 2012 primarily due to the impact of strong recruiting in the early part of 2012.



Table of Contents

Our average issued face amount was approximately \$246,800 in 2013 compared with approximately \$243,000 in 2012. Total face amount in force increased to approximately \$674.9 billion as of December 31, 2013, compared with approximately \$670.4 billion at December 31, 2012, primarily as a result of larger average size of policies underwritten and lower terminations due to better persistency, partially offset by the decrease in the number of policies issued in 2013.

Investment and Savings Product Sales and Asset Values. Investment and savings products sales were higher in 2013, totaling approximately \$5.2 billion, compared with approximately \$4.7 billion in 2012. The increase in sales was largely attributable to favorable market performance and the impact of new product introductions.

The assets in our clients' accounts are invested in diversified funds comprised mainly of U.S. and Canadian equity and fixed-income securities. The average value of assets in client accounts increased to approximately \$41.0 billion in 2013 from approximately \$35.9 billion in 2012, while the period-end asset value increased to approximately \$45.0 billion at December 31, 2013 compared with approximately \$37.4 billion a year ago. The 2013 increases both in period-end asset values and average client asset values were attributable to improved market performance and higher product sales.

## Factors Affecting Our Results

Term Life Insurance Segment. Our Term Life Insurance segment results are primarily driven by sales volumes, the accuracy of our pricing assumptions, terms and use of reinsurance, investment income and expenses.

Sales and policies in force. Sales of new term policies and the size and characteristics of our in-force book of policies are vital to our results over the long term. Premium revenues are recognized as it is earned over the term of the policy and eligible acquisition expenses are deferred and amortized ratably with the level premiums of the underlying policies. However, because we incur significant cash outflows at or about the time policies are issued, including the payment of sales commissions and underwriting costs, changes in life insurance sales volume will have a more immediate effect on our cash flows.

Historically, we have found that while sales volume of term life insurance products between fiscal periods may vary based on a variety of factors, the productivity of our individual sales representatives remains within a relatively narrow range (between .18x and .22x), and, consequently, our sales volume over the longer term generally correlates to the size of our sales force.

The average number of life-licensed sales representatives and the number of term life insurance policies issued, as well as the average monthly rate of new policies issued per life-licensed sales representative, were as follows:

	Year ended December 31,			
	2013	2012	2011	
Average number of life-licensed sales representatives	93,086	90,981	91,855	
Number of new policies issued	214,617	222,558	237,535	
Average monthly rate of new policies issued per life-licensed sales representative	.19x	.20x	.22x	(1)

Our 2011 processing cycle provided five additional days of policy processing. Excluding the policies processed (1) during these additional days, the average monthly rate of new policies issued per life licensed sales representative would have been 0.21x for 2011.

During 2013, the average monthly rate of new policies issued per life-licensed sales representative remained relatively consistent with historical experience. The slightly higher average monthly rate of new policies issued per life-licensed sales representative in 2012 compared to 2013 represents the favorable impact of term life insurance policy sales attributable to warm market leads generated from strong recruiting, particularly in the first quarter of 2012. During 2012, the average monthly rate of new policies issued per life-licensed sales representative declined in comparison to the prior year primarily due to the post-convention recruiting surge that generated significant sales referrals and opportunities in 2011.

Pricing assumptions. Our pricing methodology is intended to provide us with appropriate profit margins for the risks we assume. We determine pricing classifications based on the coverage sought, such as the size and term of the

policy, and certain policyholder attributes, such as age and health. In addition, we generally utilize unisex rates for our term life insurance policies. The pricing assumptions that underlie our rates are based upon our best estimates of mortality, persistency and investment yields at the time of issuance, sales force commission rates, issue and underwriting expenses, operating expenses and the characteristics of the insureds, including sex, age, underwriting class, product and amount of coverage. Our results will be affected to the extent there is a variance between our pricing assumptions and actual experience.

• Persistency. Persistency is a measure of how long our insurance policies stay in force. As a general matter, persistency that is lower than our pricing assumptions adversely affects our results over the long term because we

Table of Contents

lose the recurring revenue stream associated with the policies that lapse. Determining the near-term effects of changes in persistency is more complicated. When persistency is lower than our pricing assumptions, we must accelerate the amortization of deferred policy acquisition costs ("DAC"). The resultant increase in amortization expense is offset by a corresponding release of future policy benefit reserves associated with lapsed policies, which causes a reduction in benefits and claims expense. The future policy benefit reserves associated with any given policy will change over the term of such policy. As a general matter, future policy benefit reserves are lowest at the inception of a policy term and rise steadily to a peak before declining to zero at the expiration of the policy term. Accordingly, depending on when the lapse occurs in relation to the overall policy term, the reduction in benefits and claims expense may be greater or less than the increase in amortization expense, and, consequently, the effects on earnings for a given period could be positive or negative. Persistency levels will cause fluctuations in our results to the extent actual experience deviates from the persistency assumptions used to price our products.

**Mortality.** Our profitability will fluctuate to the extent actual mortality rates differ from those used in our pricing assumptions. We mitigate a significant portion of our mortality exposure through reinsurance.

**Investment Yields.** We use investment yield rates based on yields available at the time a policy is issued. For policies issued in 2010 and later, we have been using an increasing interest rate assumption to reflect the historically low interest rate environment. Both DAC and the future policy benefit reserve liability increase with the assumed investment yield rate. Because DAC is higher than the future policy benefit reserve liability in the early years of a policy, a lower assumed investment yield generally will result in lower profits. In the later years, when the future policy benefit reserve liability is higher than DAC, a lower assumed investment yield generally will result in higher profits. These assumed investment yields, which like other pricing assumptions are locked in at issue, impact the timing but not the aggregate amount of DAC and future policy benefit reserve changes. Actual investment yields will impact net investment income allocated to the Term Life Insurance segment, but will not impact DAC or the future policy benefit reserve liability.

**Reinsurance.** We use reinsurance extensively, which has a significant effect on our results of operations. Since the mid-1990s, we have reinsured between 60% and 90% of the mortality risk on our U.S. term life insurance policies on a quota share yearly renewable term ("YRT") basis. In Canada, we previously utilized reinsurance arrangements similar to the U.S. in certain years and reinsured only face amounts above \$500,000 in other years. However, in the first quarter of 2012, we entered into a YRT reinsurance arrangement in Canada similar to our U.S. program that reinsures 80% of the face amount for every policy sold. YRT reinsurance permits us to set future mortality at contractual rates by policy class. To the extent actual mortality experience is more or less favorable than the contractual rate, the reinsurer will earn incremental profits or bear the incremental cost, as applicable. In contrast to coinsurance, which is intended to eliminate all risks (other than counterparty risk of the reinsurer) and rewards associated with a specified percentage of the block of policies subject to the reinsurance arrangement, the YRT reinsurance arrangements we enter into are intended only to reduce volatility associated with variances between estimated and actual mortality rates.

In 2010, as part of our corporate reorganization, we entered into significant coinsurance transactions (the "coinsurance agreements") with three affiliates (collectively, the "Citigroup reinsurers") of Citigroup, Inc. ("Citigroup"). Under the coinsurance agreements, we ceded between 80% and 90% of the risks and rewards of our term life insurance policies that were in force at year-end 2009. We also transferred to the Citigroup reinsurers the account balances in respect of the coinsured policies and approximately \$4.0 billion of assets to support the statutory liabilities assumed by the Citigroup reinsurers. As a result, the Citigroup reinsurance transactions reduced the amount of our capital and substantially reduced our insurance exposure on the coinsured policies. We retained our operating platform and infrastructure and continue to administer all policies subject to these coinsurance agreements.

The effect of our reinsurance arrangements on ceded premiums and benefits and expenses on our statement of income follows:

**Ceded premiums.** Ceded premiums are the premiums we pay to reinsurers. These amounts are deducted from the direct premiums we earn to calculate our net premium revenues. Similar to direct premium revenues, ceded coinsurance premiums remain level over the initial term of the insurance policy. Ceded YRT premiums increase over the period that the policy has been in force. Accordingly, ceded YRT premiums generally constitute an increasing

percentage of direct premiums over the policy term.

- Benefits and claims. Benefits and claims include incurred claim amounts and changes in future policy benefit reserves. Reinsurance reduces incurred claims in direct proportion to the percentage ceded. Coinsurance also reduces the change in future policy benefit reserves in direct proportion to the percentage ceded, while YRT reinsurance does not significantly impact the change in these reserves.

Amortization of DAC. DAC, and therefore amortization of DAC, is reduced on a pro-rata basis for the coinsured business, including the business reinsured with Citigroup. There is no impact on amortization of DAC associated with our YRT contracts.

Table of Contents

Insurance expenses. Insurance expenses are reduced by the allowances received from coinsurance, including the business reinsured with Citigroup. There is no impact on insurance expenses associated with our YRT contracts.

We may alter our reinsurance practices at any time due to the unavailability of YRT reinsurance at attractive rates or the availability of alternatives to reduce our risk exposure. We presently intend to continue ceding approximately 90% of our U.S. mortality risk on new business and approximately 80% of our Canadian mortality risk on new business.

Net investment income. Net investment income is allocated to the Term Life Insurance segment based on the book value of the invested assets necessary to meet statutory reserve requirements and our targeted capital objectives. Net investment income is impacted by the performance of our invested asset portfolio, which can be affected by interest rates, credit spreads and the mix of invested assets.

Expenses. Results are also affected by variances in client acquisition, maintenance and administration expense levels. Investment and Savings Products Segment. Our Investment and Savings Products segment results are primarily driven by sales, the value of assets in client accounts for which we earn ongoing management, service and distribution fees and the number of fee generating accounts we administer.

Sales. We earn commissions and fees, such as dealer re-allowances and marketing and support fees, based on sales of retail mutual fund and managed account products and annuities. Sales of investment and savings products are influenced by the overall demand for investment products in the United States and Canada, as well as by the size and productivity of our sales force. We generally experience seasonality in our Investment and Savings Products segment results due to our high concentration of sales of retirement account products. These accounts are typically funded in February through April, coincident with our clients' tax return preparation season. While we believe the size of our sales force is a factor in driving sales volume in this segment, there are a number of other variables, such as economic and market conditions, which may have a significantly greater effect on sales volume in any given fiscal period.

Asset values in client accounts. We earn marketing and distribution fees (trail commissions or, with respect to U.S. mutual funds, 12b-1 fees) on mutual fund and annuity assets in the United States and Canada. In the United States, we also earn investment advisory fees on assets in the managed accounts program. In Canada, we earn management fees on certain mutual fund assets and on the segregated funds for which we serve as investment manager. Asset values are influenced by new product sales, ongoing contributions to existing accounts, redemptions and the change in market values in existing accounts. While we offer a wide variety of asset classes and investment styles, our clients' accounts are primarily invested in equity funds.

Accounts. We earn recordkeeping fees for administrative functions we perform on behalf of several of our retail and managed mutual fund providers and custodial fees for services as a non-bank custodian for certain of our clients' retirement plan accounts.

Sales mix. While our investment and savings products all have similar long-term earnings characteristics, our results in a given fiscal period will be affected by changes in the overall mix of products within these categories. Examples of changes in the sales mix that influence our results include the following:

sales of annuity products in the United States will generate higher revenues in the period such sales occur than sales of other investment products that either generate lower upfront revenues or, in the case of managed accounts and segregated funds, no upfront revenues;

sales of a higher proportion of managed accounts and segregated funds products will generally extend the time over which revenues can be earned because we are entitled to higher revenues based on assets under management for these accounts in lieu of upfront revenues; and

sales of a higher proportion of mutual fund products and the composition of the fund families sold will impact the timing and amount of revenue we earn given the marketing, support, recordkeeping and custodial services we perform for the various mutual fund products we distribute.

Corporate and Other Distributed Products Segment. We earn revenues and pay commissions and referral fees for various other insurance products, prepaid legal services and other financial products, all of which are originated by third parties. National Benefit Life Insurance Company ("NBLIC") also underwrites a mail-order student life policy and, through 2013, a short-term disability benefit policy, neither of which is distributed by our sales force, and has in-force policies from several discontinued lines of insurance. Corporate and Other Distributed Products segment net investment income is composed of two elements: the remainder of net investment income not allocated to our Term

Life Insurance segment and the market return associated with the deposit asset underlying the 10% coinsurance agreement with the Citigroup reinsurers ("10% Coinsurance Agreement").

43

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## Table of Contents

The Corporate and Other Distributed Products segment is affected by corporate income and expenses not allocated to our other segments, net investment income (other than net investment income allocated to our Term Life Insurance segment), general and administrative expenses (other than expenses that are allocated to our Term Life Insurance or Investment and Savings Products segments), equity awards granted to management and our sales force leaders at the time of our initial public offering, interest expense on notes payable, and realized gains and losses on our invested asset portfolio.

**Capital Structure.** Our financial results have also been affected by changes in our capital structure, including the issuance of \$375.0 million in principal amount of senior unsecured notes issued in 2012 (the "Senior Notes") and the concurrent repayment of a \$300.0 million note payable issued to Citigroup, as well as repurchases of shares and warrants and other financing arrangements during 2012 and 2013.

See Note 9 (Notes Payable), Note 11 (Stockholders' Equity) and Note 15 (Commitments and Contingent Liabilities) to our consolidated financial statements included elsewhere in this report for more information on changes in our capital structure.

### Critical Accounting Estimates

We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). These principles are established primarily by the Financial Accounting Standards Board ("FASB"). The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions based on currently available information when recording transactions resulting from business operations. Our significant accounting policies are described in Note 1 (Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies) to our consolidated financial statements included elsewhere in this report. The most significant items on our Consolidated Balance Sheets are based on fair value determinations, accounting estimates and actuarial determinations, which are susceptible to changes in future periods and could affect our results of operations and financial position.

The estimates that we deem to be most critical to an understanding of our results of operations and financial position are those related to DAC, future policy benefit reserves and corresponding amounts due from reinsurers, income taxes, the valuation of investments, and litigation. The preparation and evaluation of these critical accounting estimates involve the use of various assumptions developed from management's analyses and judgments. Subsequent experience or use of other assumptions could produce significantly different results.

### Deferred Policy Acquisition Costs

We defer incremental direct costs of successful contract acquisitions that result directly from and are essential to the contract transaction(s) and that would not have been incurred had the contract transaction(s) not occurred. These costs include commissions and policy issue expenses. Deferrable term life insurance policy acquisition costs are amortized over the initial premium-paying period of the related policies in proportion to premium income and include assumptions made by us regarding persistency, expenses, investment yields and claims, which are updated on new business to reflect recent experience. These assumptions may not be modified, or unlocked on in-force business, unless recoverability testing deems them to be inadequate. DAC is subject to recoverability testing annually and when circumstances indicate that recoverability is uncertain.

If actual lapses or withdrawals are different from pricing assumptions for a particular period, DAC amortization will be affected. If the rate of policies that lapse are 1% higher than the rate of policies that we expected to lapse in our pricing assumptions, approximately 1% more of the existing DAC balance will be amortized, which would have been equal to approximately \$11.2 million as of December 31, 2013 (assuming such lapses were distributed proportionately among policies of all durations). We believe that a lapse rate in the number of policies that is 1% higher than the rate assumed in our pricing assumptions is a reasonably possible variation. Higher lapses in the early durations would have a greater effect on DAC amortization since the DAC balances are higher at the earlier durations. Due to the inherent uncertainties in making assumptions about future events, materially different experience from expected results in persistency could result in a material increase or decrease of DAC amortization in a particular period.

Deferrable acquisition costs for Canadian segregated funds are amortized over the life of the policies in relation to historical and future estimated gross profits before amortization. The gross profits and resulting DAC amortization

will vary with actual fund returns, redemptions and expenses.

For additional information on DAC, see Note 1 (Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies) and Note 6 (Deferred Policy Acquisition Costs) to our consolidated financial statements.



Table of Contents**Future Policy Benefit Reserves and Reinsurance**

Liabilities for future policy benefits on our term life insurance products have been computed using a net level method and include assumptions as to mortality, persistency, investment yields, and other assumptions based on our historical experience, modified as necessary for new business to reflect anticipated trends and to include provisions for possible adverse deviation. Reserves related to reinsured policies are accounted for using assumptions consistent with those used to determine the future policy benefit reserves and are included in Due from reinsurers in our Consolidated Balance Sheets. Similar to the DAC discussion above, we may not modify the assumptions used to establish future policy benefit reserves during the policy term unless recoverability testing deems them to be inadequate. Our results depend significantly upon the extent to which our actual experience is consistent with the assumptions we used in determining our future policy benefit reserves. Our future policy benefit reserve assumptions and estimates require significant judgment and, therefore, are inherently uncertain.

If the rate of policies that lapse are 1% higher than the rate of policies that we expected to lapse in our pricing assumptions, approximately 1% more of the future policy benefit reserves will be released, which would have been equal to approximately \$48.4 million (assuming such lapses were distributed proportionately among policies of all durations), partially offset by the release of the corresponding due from reinsurers asset of approximately \$37.9 million as of December 31, 2013. Higher lapses in later durations would have a greater effect on the release of future policy benefit reserves since the future policy benefit reserves are higher at the later durations. We cannot determine with precision the ultimate amounts that we will pay for actual claims or the timing of those payments.

For additional information on future policy benefits and reinsurance, see Note 1 (Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies) and Note 5 (Reinsurance) to our consolidated financial statements included elsewhere in this report.

**Income Taxes**

We account for income taxes using the asset and liability method. We recognize deferred tax assets and liabilities for the future tax consequences attributable to (i) differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and (ii) operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We recognize the effect on deferred tax assets and liabilities of a change in tax rates in income in the period that includes the enactment date. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not applicable to the periods in which we expect the temporary difference will reverse.

In light of the multiple tax jurisdictions in which we operate, our tax returns are subject to routine audit by the Internal Revenue Service ("IRS") and other taxation authorities. The results of these audits at times produce uncertainty regarding particular tax positions taken in the year(s) of review. The Company records uncertain tax positions, which requires recognition at the time when it is more likely than not that the position in question will be upheld. Although management believes that the judgment and estimates involved are reasonable and that the necessary provisions have been recorded, changes in circumstances or unexpected events could adversely affect our financial position, results of operations, and cash flows.

For additional information on income taxes, see Note 1 (Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies) and Note 10 (Income Taxes) to our consolidated financial statements included elsewhere in this report.

**Invested Assets**

We hold primarily fixed-maturity securities, including bonds and redeemable preferred stocks, and equity securities, including common and non-redeemable preferred stock. We have classified these invested assets as available-for-sale, except for the securities of our U.S. broker-dealer subsidiary, which we have classified as trading securities. All of these securities are carried at fair value. Unrealized gains and losses on available-for-sale securities are included as a separate component of accumulated other comprehensive income except for the credit loss components of other-than-temporary declines in fair value, which are recorded as realized losses in the accompanying consolidated statements of income. Changes in fair value of trading securities are included in net investment income in the period in which the change occurred.

Fair value. Fair value is the price that would be received upon the sale of an asset in an orderly transaction between market participants at the measurement date. Fair value measurements are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our

45

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## Table of Contents

view of market assumptions in the absence of observable market information. We classify and disclose all invested assets carried at fair value in one of the three categories prescribed by U.S. GAAP.

As of each reporting period, we classify all invested assets in their entirety based on the lowest level of input that is significant to the fair value measurement. Significant levels of estimation and judgment are required to determine the fair value of certain of our investments. The factors influencing these estimations and judgments are subject to change in subsequent reporting periods.

**Other-than-temporary impairments.** The determination of whether a decline in fair value of available-for-sale securities below amortized cost is other-than-temporary is subjective. Furthermore, this determination can involve a variety of assumptions and estimates, particularly for invested assets that are not actively traded in established markets. We evaluate a number of quantitative and qualitative factors when determining the impairment status of individual securities, including issuer-specific risks as well as relevant macroeconomic risks.

For available-for-sale securities in an unrealized loss position that we intend to sell or would more-likely-than-not be required to sell before the expected recovery of the amortized cost basis, we recognize an impairment charge for the difference between amortized cost and fair value as a realized investment loss in our statements of income. For available-for-sale securities in an unrealized loss position for which we have no intent to sell and believe that it is more-likely-than-not that we will not be required to sell before the expected recovery of the amortized cost basis, only the amount related to the principal cash flows not expected to be received over the remaining term of the security, or the credit loss component, of the difference between cost and fair value is recognized in earnings, while the remainder is recognized in accumulated other comprehensive income.

Other-than-temporary impairment analyses that we perform involve the use of estimates, assumptions, and subjectivity. If these factors or future events change, we could experience material other-than-temporary impairments in future periods, which could adversely affect our financial condition, results of operations and the size and quality of our invested assets portfolio.

For additional information on our invested assets, see Note 1 (Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies), Note 3 (Investments) and Note 4 (Fair Value of Financial Instruments) to our consolidated financial statements included elsewhere in this report.

### Litigation

The Company is involved from time to time in legal disputes, regulatory inquiries and arbitration proceedings in the normal course of business. These disputes are subject to uncertainties, including indeterminate amounts sought in certain of these matters and the inherent unpredictability of litigation. We recognize losses for legal contingencies when payments associated with the contingency become probable and can be reasonably estimated. Due to the difficulty of estimating litigation outcomes, actual costs may be substantially higher or lower than any amounts reserved. Legal costs, such as attorney's fees and other litigation-related expenses, that are incurred in connection with litigation are expensed as incurred.

For additional information on legal issues and contingencies, see Note 15 (Commitments and Contingent Liabilities) to our consolidated financial statements included elsewhere in this report.

### Results of Operations

**Revenues.** Our revenues consist of the following:

• **Net premiums.** Reflects direct premiums payable by our policyholders on our in-force insurance policies, primarily term life insurance, net of reinsurance premiums that we pay to reinsurers.

• **Commissions and fees.** Consists primarily of dealer re-allowances earned on the sales of investment and savings products, trail commissions and management fees based on the asset values of client accounts, marketing and support fees from product originators, custodial fees for services rendered in our capacity as nominee on client retirement accounts funded by mutual funds on our servicing platform, recordkeeping fees for mutual funds on our servicing platform and fees associated with the sale of other distributed products.

• **Net investment income.** Represents income, net of investment-related expenses, generated by our invested asset portfolio, which consists primarily of interest income earned on fixed-maturity investments. Investment income earned on assets supporting our statutory reserves and targeted capital is allocated to our Term Life Insurance

segment, with the balance included in our Corporate and Other Distributed Products segment.

46

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Table of Contents

Realized investment gains (losses), including other-than-temporary impairments (“OTTI”). Reflects the difference between amortized cost and amounts realized on the sale of invested assets, as well as OTTI charges.

Other, net. Reflects revenues generated primarily from the fees charged for access to our sales force support applications, as well as revenues from the sale of marketing materials and other miscellaneous items.

Benefits and Expenses. Our operating expenses consist of the following:

Benefits and claims. Reflects the benefits and claims payable on insurance policies, as well as changes in our reserves for future policy claims and reserves for other benefits payable, net of reinsurance.

Amortization of DAC. Represents the amortization of capitalized costs associated with the sale of an insurance policy or segregated fund, including sales commissions, medical examination and other underwriting costs, and other policy issuance costs.

Insurance commissions. Reflects sales commissions in respect of insurance products that are not eligible for deferral.

Insurance expenses. Reflects non-capitalized insurance expenses, including staff compensation, technology and communications, insurance sales force-related costs, printing, postage and distribution of insurance sales materials, outsourcing and professional fees, premium taxes, amortization of certain intangibles and other corporate and administrative fees and expenses related to our insurance operations.

Sales commissions. Represents commissions to our sales representatives in connection with the sale of investment and savings products and products other than insurance products.

Interest expense. Reflects interest on the Senior Notes, the financing charges related to an issued letter of credit, and a finance charge incurred pursuant to our coinsurance agreement with Citigroup.

Other operating expenses. Consists primarily of expenses that are unrelated to the distribution of insurance products, including staff compensation, technology and communications, various sales force-related costs, printing, postage and distribution of sales materials, outsourcing and professional fees, amortization of certain intangibles and other corporate and administrative fees and expenses.

Insurance expenses and operating expenses directly attributable to the Term Life Insurance and the Investment and Savings Products segments are recorded directly to the applicable segment. We allocate certain other operating expenses that are not directly attributable to a specific operating segment based on the relative sizes of our life-licensed and securities-licensed independent sales forces. These allocated costs include field technology, supervision, training and certain legal costs. We also allocate certain technology and occupancy costs to our operating segments based on usage. Costs that are not directly charged or allocated to our two primary operating segments are included in our Corporate and Other Distributed Products segment.

Table of Contents

## 2013 Compared to 2012

Primerica, Inc. and Subsidiaries Results. Our results of operations for the years ended December 31, 2013 and 2012 were as follows:

	Year ended December 31,		Change \$	%	
	2013	2012			
	(Dollars in thousands)				
Revenues:					
Direct premiums	\$2,302,069	\$2,267,975	\$34,094	2	%
Ceded premiums	(1,644,158)	(1,663,753)	(19,595)	(1)	%
Net premiums	657,911	604,222	53,689	9	%
Commissions and fees	471,808	429,044	42,764	10	%
Net investment income	88,752	100,804	(12,052)	(12)	%
Realized investment gains, including OTTI	6,246	11,382	(5,136)	(45)	%
Other, net	42,731	45,263	(2,532)	(6)	%
Total revenues	1,267,448	1,190,715	76,733	6	%
Benefits and expenses:					
Benefits and claims	301,475	278,747	22,728	8	%
Amortization of DAC	129,183	118,598	10,585	9	%
Sales commissions	232,237	204,569	27,668	14	%
Insurance expenses	108,658	96,541	12,117	13	%
Insurance commissions	22,471	27,555	(5,084)	(18)	%
Interest expense	35,018	33,101	1,917	6	%
Other operating expenses	187,208	164,716	22,492	14	%
Total benefits and expenses	1,016,250	923,827	92,423	10	%
Income before income taxes	251,198	266,888	(15,690)	(6)	%
Income taxes	88,473	93,082	(4,609)	(5)	%
Net income	\$162,725	\$173,806	\$(11,081)	(6)	%

Total revenues. During 2013, total revenues increased in our primary operating segments (Term Life Insurance and Investment and Savings Products) largely driven by incremental premiums on new term life insurance policies issued subsequent to the Citigroup reinsurance transactions ("New Term"), higher sales of investment products, and growth in client asset values. The decrease in net investment income and realized investment gains largely occurred in our Corporate and Other Distributed Products segment as described below.

Total benefits and expenses. Total benefits and expenses increased in 2013 primarily as a result of the growth in revenue-related costs, which include benefits and claims, DAC amortization, and certain insurance expenses from the continued growth in our Term Life business. Sales commissions on investment products were higher and consistent with the increase in commissions and fees revenue. In addition, we experienced higher other operating expenses primarily attributable to higher legal fees and settlement costs related to claims alleged by certain participants in the Florida Retirement System's benefit plan ("FRS"). These increased costs were partially offset by lower non-deferrable insurance commissions for 2013 reflecting changes in agent incentive programs that led to higher commission deferrals.

Income taxes. Our effective income tax rate was slightly higher at 35.2% in 2013 compared with 34.9% in 2012. For additional information, see the discussions of results of operations by segment below.

Table of Contents

Term Life Insurance Segment. Our results for the Term Life Insurance segment for the years ended December 31, 2013 and 2012 were as follows:

	Year ended December 31,		Change		
	2013	2012	\$	%	
	(Dollars in thousands)				
Revenues:					
Direct premiums	\$2,229,204	\$2,193,280	\$35,924	2	%
Ceded premiums	(1,632,042)	(1,649,622)	(17,580)	(1)	)%
Net premiums	597,162	543,658	53,504	10	%
Allocated net investment income	68,796	66,119	2,677	4	%
Other, net	29,017	30,357	(1,340)	(4)	)%
Total revenues	694,975	640,134	54,841	9	%
Benefits and expenses:					
Benefits and claims	262,357	239,346	23,011	10	%
Amortization of DAC	115,891	104,272	11,619	11	%
Insurance expenses	98,081	85,156	12,925	15	%
Insurance commissions	4,599	9,599	(5,000)	(52)	)%
Interest expense	16,846	15,835	1,011	6	%
Total benefits and expenses	497,774	454,208	43,566	10	%
Income before income taxes	\$197,201	\$185,926	\$11,275	6	%

Net premiums. The increase in net premiums in 2013 is primarily due to the continued addition of New Term in-force business combined with the run-off of business subject to the Citigroup reinsurance transactions. While ceded premiums supporting YRT reinsurance programs for New Term are a relatively low portion of direct premiums, ceded premiums for the block of business coinsured by Citigroup are more than 80% of direct premiums. As a result, as we continue to build New Term and the block coinsured by Citigroup continues to run off, net premiums will continue to grow faster than direct premiums, albeit at a declining rate of growth. The increase in net premiums was partially offset by ceded premium recovery transactions in 2012, which resulted in a similar reduction in benefits and claims, that did not reoccur in 2013.

Allocated net investment income. The increase in allocated net investment income was largely attributable to the growth in invested assets that support our statutory capital and reserves ("required assets"), partially offset by lower yield on invested assets.

Benefits and claims. For the year ended December 31, 2013, benefits and claims increased primarily due to the growth in New Term business. Partially offsetting this increase was the impact of reprocessed reinsurance transactions during 2012 that did not reoccur during 2013.

Amortization of DAC. The increase in amortization of DAC in 2013 was consistent with the increase in net premiums as higher deferrable agent incentive program costs were partially offset by better persistency.

Insurance commissions. The decrease in year-over-year insurance commissions was largely driven by a higher rate of commission deferrals consistent with agent incentive program changes.

Insurance expenses. Insurance expenses increased mainly due to higher employee compensation costs, the run-off of expense allowances received under the Citigroup reinsurance agreements, higher costs in support of our independent sales force, and higher premium-related taxes, licenses and fees.

Interest expense. Interest expense increased due to the redundant reserve financing executed in March 2012.

Product sales and face amount in force. We issued 214,617 new life insurance policies in 2013 compared with 222,558 new policies in 2012. The higher sales of our term life insurance policies in the prior year were primarily as a result of strong recruiting in the early part of 2012.

Table of Contents

The changes in the face amount of our in-force book of term life insurance policies were as follows:

	Year ended December 31,			
	2013	% of beginning balance	2012	% of beginning balance
	(Dollars in millions)			
Face amount in force, beginning of period	\$670,412		\$664,955	
Net change in face amount:				
Issued face amount	67,783	10 %	68,053	10 %
Terminations	(57,730)	(9)%	(61,593)	(9)%
Foreign currency	(5,597)	(1)%	(1,003)	*
Net change in face amount	4,456	1 %	5,457	1 %
Face amount in force, end of period	\$674,868		\$670,412	

\*Less than 1%.

The total face amount of policies in-force increased in 2013 mostly reflecting lower terminations on existing policies as a result of slightly better persistency. Issued face amount during 2013 remained relatively unchanged from 2012 due to the offsetting impacts of the year-over-year decline in the number of policies issued and the larger average size of policies underwritten. In addition, the strengthening of the U.S. dollar in relation to the Canadian dollar negatively impacted the face amount of in-force policies for the year ended December 31, 2013.

Investment and Savings Product Segment. Our results of operations for the Investment and Savings Products segment for the years ended December 31, 2013 and 2012 were as follows:

	Year ended December 31,		Change	
	2013	2012	\$	%
	(Dollars in thousands)			
Revenues:				
Commissions and fees:				
Sales-based revenues	\$208,319	\$186,267	\$22,052	12 %
Asset-based revenues	201,276	179,725	21,551	12 %
Account-based revenues	38,868	38,510	358	1 %
Other, net	8,675	9,463	(788)	(8)%
Total revenues	457,138	413,965	43,173	10 %
Expenses:				
Amortization of DAC	11,195	10,956	239	2 %
Insurance commissions	9,046	9,070	(24)	*
Sales commissions:				
Sales-based	146,652	129,914	16,738	13 %
Asset-based	73,146	61,491	11,655	19 %
Other operating expenses	111,950	81,418	30,532	38 %
Total expenses	351,989	292,849	59,140	20 %
Income before income taxes	\$105,149	\$121,116	\$(15,967)	(13)%

\*Less than 1%.



Table of Contents

Supplemental information on the underlying metrics that drove results follows.

	Year ended December 31,		Change		
	2013	2012	\$		%
	(Dollars in millions and accounts in thousands)				
Product sales:					
Retail mutual funds	\$2,766	\$2,346	\$420		18 %
Annuities and other	1,935	1,902	33		2 %
Total sales-based revenue generating product sales	4,701	4,248	453		11 %
Segregated funds	283	328	(45	)	(14)%
Managed accounts	225	136	89		65 %
Total product sales	\$5,209	\$4,712	\$497		11 %
Average client asset values:					
Retail mutual funds	\$27,284	\$24,214	\$3,070		13 %
Annuities and other	11,175	9,149	2,026		22 %
Segregated funds	2,576	2,541	35		1 %
Total average asset values in client accounts	\$41,035	\$35,904	\$5,131		14 %
Average number of fee-generating accounts:					
Recordkeeping accounts	2,540	2,567	(27	)	(1)%
Custodial accounts	1,954	1,945	9		*

\*Less than 1%.

Commissions and fees. The increase in commissions and fees was largely due to higher product sales and growth in average client asset values. The increase in product sales was driven primarily by higher mutual fund sales. The rise in average client asset values, which was indicative of favorable market performance during 2013, also contributed to the increase in commissions and fees in the form of higher asset-based revenues.

Sales commissions. The increase in sales-based commissions was primarily the result of the increases in product sales noted above. The increase in asset-based commissions during 2013 was consistent with the increase in asset-based revenues when excluding segregated funds. The relevant costs associated with asset-based revenue from segregated funds are recorded within insurance commissions and amortization of DAC.

Other operating expenses. Other operating expenses increased mainly due to higher legal fees and expenses. The increase in legal fees and expenses was primarily due to \$11.4 million of expenses attributable to defending FRS claims during 2013 compared with \$2.9 million in 2012. Additionally, a potential settlement was reached with the FRS claimants, resulting in our recording a charge of approximately \$15.7 million in 2013. See Note 15 (Commitments and Contingent Liabilities) to our consolidated financial statements included elsewhere in this report for more information.

Growth-related expenses, higher employee compensation costs, and higher costs in support of our independent sales force also contributed to the increase in other operating expenses in this segment.

Product sales. Investment and savings products sales were higher in 2013 compared to 2012 largely reflecting favorable market performance and the impact of new product introductions.

Table of Contents

Asset values in client accounts. Changes in asset values in client accounts were as follows:

	Year ended December 31,			
	2013	% of beginning balance	2012	% of beginning balance
	(Dollars in millions)			
Asset values, beginning of period	\$37,386		\$33,664	
Net change in asset values:				
Inflows	5,209	14 %	4,712	14 %
Redemptions	(4,825 )	(13 )%	(4,442 )	(13 )%
Change in market value, net and other	7,220	19 %	3,452	10 %
Net change in asset values	7,604	20 %	3,722	11 %
Asset values, end of period	\$44,990		\$37,386	

Asset values in client accounts increased in 2013 largely due to favorable market performance. The growth in inflows was consistent with the increase in sales volume. The rate of redemptions relative to average client asset values in 2013 remained consistent with the prior year.

Corporate and Other Distributed Products Segment. Our results of operations for the Corporate and Other Distributed Products segment for the years ended December 31, 2013 and 2012 were as follows:

	Year ended December 31,		Change	
	2013	2012	\$	%
	(Dollars in thousands)			
Revenues:				
Direct premiums	\$72,865	\$74,695	\$(1,830 )	(2 )%
Ceded premiums	(12,116 )	(14,131 )	(2,015 )	(14 )%
Net premiums	60,749	60,564	185	*
Commissions and fees	23,345	24,542	(1,197 )	(5 )%
Allocated net investment income	19,956	34,685	(14,729 )	(42 )%
Realized investment gains, including OTTI	6,246	11,382	(5,136 )	(45 )%
Other, net	5,039	5,443	(404 )	(7 )%
Total revenues	115,335	136,616	(21,281 )	(16 )%
Benefits and expenses:				
Benefits and claims	39,118	39,401	(283 )	(1 )%
Amortization of DAC	2,097	3,370	(1,273 )	(38 )%
Sales commissions	12,439	13,164	(725 )	(6 )%
Insurance expenses	10,577	11,385	(808 )	(7 )%
Insurance commissions	8,826	8,886	(60 )	(1 )%
Interest expense	18,172	17,266	906	5 %
Other operating expenses	75,258	83,298	(8,040 )	(10 )%
Total benefits and expenses	166,487	176,770	(10,283 )	(6 )%
Loss before income taxes	\$(51,152 )	\$(40,154 )	\$10,998	27 %

\*Less than 1%.

Total revenues. Total revenues decreased during the year ended December 31, 2013, primarily attributable to declines in net investment income and realized gains. The decrease in net investment income was due to higher allocation of assets and net investment income to the Term Life Insurance segment, a lower average base of invested assets subsequent to repurchases of shares and warrants in 2013, lower return on the deposit asset underlying our 10% Coinsurance Agreement driven by the overall rise in interest rates, and lower yield on invested assets as a result of replacing maturing investments with lower yielding securities. Realized investment gains decreased year-over-year largely due to higher income received from the sale of invested assets sold to fund share repurchases during 2012

compared with 2013.

52

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Table of Contents

Amortization of DAC. During the year ended December 31, 2013, DAC amortization decreased primarily related to estimate adjustments for student life insurance products recognized in 2012, which increased DAC amortization for that year. These adjustments did not repeat in 2013.

Other operating expenses. Other operating expenses decreased primarily due to lower stock compensation costs related to the completion of the vesting of restricted stock granted in connection with our April 2010 initial public offering and lower other miscellaneous costs, partially offset by higher employee compensation costs from merit increases and one-time expenses related to the relocation of our corporate headquarters.

## 2012 Compared to 2011

Primerica, Inc. and Subsidiaries Results. Our results of operations for the years ended December 31, 2012 and 2011 were as follows:

	Year ended December 31,		Change		
	2012	2011	\$		%
	(Dollars in thousands)				
Revenues:					
Direct premiums	\$2,267,975	\$2,229,467	\$38,508	2	%
Ceded premiums	(1,663,753 )	(1,703,075 )	(39,322 )	(2)	)%
Net premiums	604,222	526,392	77,830	15	%
Commissions and fees	429,044	414,471	14,573	4	%
Net investment income	100,804	108,601	(7,797 )	(7)	)%
Realized investment gains, including OTTI	11,382	6,440	4,942	77	%
Other, net	45,263	47,189	(1,926 )	(4)	)%
Total revenues	1,190,715	1,103,093	87,622	8	%
Benefits and expenses:					
Benefits and claims	278,747	242,696	36,051	15	%
Amortization of DAC	118,598	104,034	14,564	14	%
Sales commissions	204,569	191,722	12,847	7	%
Insurance expenses	96,541	89,192	7,349	8	%
Insurance commissions	27,555	38,618	(11,063 )	(29)	)%
Interest expense	33,101	27,968	5,133	18	%
Other operating expenses	164,716	164,954	(238 )	*	
Total benefits and expenses	923,827	859,184	64,643	8	%
Income before income taxes	266,888	243,909	22,979	9	%
Income taxes	93,082	86,718	6,364	7	%
Net income	\$173,806	\$157,191	\$16,615	11	%

\*Less than 1%.

Total revenues. During 2012, total revenues increased due primarily to growth in the Term Life Insurance segment. This increase largely reflects incremental premiums on New Term policies. The Company also experienced an increase in commissions and fees revenue largely driven by higher sales and higher client asset values in our Investment and Savings Product segment in 2012. The reduction in the average size of our invested asset portfolio largely contributed to the decrease in net investment income for 2012. Realized investment gains were higher due to income received from certain fixed income securities that were tendered and gains from sales of invested assets to fund share repurchases during 2012.

Total benefits and expenses. Total benefits and expenses increased in 2012 primarily as a result of the growth in premium-related costs, which include benefits and claims, DAC amortization, and insurance expenses from the continued growth in our Term Life Insurance business. In addition, sales commissions on investment products were higher consistent with the increase in commissions and fees revenue noted above. These increased costs were partially offset by lower non-deferrable insurance commissions for 2012, which were attributable to changes in incentive programs for our sales representatives during 2012 that more directly relate to life policy acquisitions.



Table of Contents

Income taxes. Our effective income tax rate was 34.9% in 2012 and 35.6% in 2011. The lower effective income tax rate during 2012 versus 2011 was primarily driven by decreasing Canadian statutory income tax rates combined with capital planning decisions to permanently reinvest certain unremitted Canadian earnings.

For additional information, see the discussions of results of operations by segment below.

Term Life Insurance Segment. Our results for the Term Life Insurance segment for the years ended December 31, 2012 and 2011 were as follows:

	Year ended December 31,		Change		
	2012	2011	\$	%	
	(Dollars in thousands)				
Revenues:					
Direct premiums	\$2,193,280	\$2,149,594	\$43,686	2	%
Ceded premiums	(1,649,622 )	(1,688,953 )	(39,331 )	(2)	)%
Net premiums	543,658	460,641	83,017	18	%
Allocated net investment income	66,119	60,668	5,451	9	%
Other, net	30,357	31,666	(1,309 )	(4)	)%
Total revenues	640,134	552,975	87,159	16	%
Benefits and expenses:					
Benefits and claims	239,346	197,159	42,187	21	%
Amortization of DAC	104,272	89,474	14,798	17	%
Insurance expenses	85,156	75,048	10,108	13	%
Insurance commissions	9,599	19,396	(9,797 )	(51)	)%
Interest expense	15,835	11,467	4,368	38	%
Total benefits and expenses	454,208	392,544	61,664	16	%
Income before income taxes	\$185,926	\$160,431	\$25,495	16	%

Net premiums. The increase in net premiums in 2012 is primarily due to the continued addition of New Term in-force business combined with the run-off of business subject to the Citigroup reinsurance transactions. While ceded premiums supporting YRT reinsurance programs for New Term are less than 20% of direct premiums, ceded premiums for the block of business coinsured by Citigroup are more than 80% of direct premiums. As a result, as we continue to build New Term and the block coinsured by Citigroup continues to run off, net premiums will continue to grow faster than direct premiums, albeit at a declining rate of growth.

Net premiums were also affected by ceded premium recovery transactions. Over the normal course of business, we reprocess a small portion of our reinsurance transactions that are either misprocessed or intentionally not processed on an automated basis due to system constraints. In the second quarter of 2012, the reprocessing of certain transactions resulted in an increase in net premiums of approximately \$6.4 million that was substantially offset by a corresponding increase in benefits and claims, contributing to the 2012 growth rate in benefits and claims outpacing the growth rate in net premiums. Net premium growth in 2012 was also partially offset by ceded premium recoveries of approximately \$8.7 million in the first quarter of 2011.

Allocated net investment income. The increase in allocated net investment income was largely attributable to higher allocated Term Life invested assets to support increased statutory reserves from growth in New Term business.

Benefits and claims. The increase in benefits and claims was largely indicative of growth in the Term Life business. The growth rate in benefits and claims outpaced the increase in net premiums primarily as a result of higher incurred claims during 2012 and the reprocessed reinsurance transactions discussed above, partially offset by a 2011 charge of approximately \$4.0 million related to cumulative potential claims identified through cross-checking public death records for deceased policyholders for whom claims had not been filed and of which we previously had been unaware.

Amortization of DAC. The increase in amortization of DAC was largely attributable to growth in New Term business. The growth in DAC amortization was relatively consistent with the growth in net premiums year-over-year.

Insurance commissions. The decrease in insurance commissions was largely driven by changes to our agent incentive programs that resulted in a higher portion of commissions being deferred during 2012 compared to 2011.

Insurance expenses. Insurance expenses increased mainly due to higher premium-related taxes, licenses and fees as well as the run-off of expense allowances received under the Citigroup reinsurance agreements. Also contributing to

54

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Table of Contents

the increase in 2012 was higher employee compensation costs from merit increases, an additional year of stock compensation amortization and the emergence of higher spending for information technology contracts. These increases were partially offset by certain 2011 costs that did not recur, including expenses associated with convention-related initiatives and the write-off of medical testing materials.

Interest expense. Interest expense increased due to the redundant reserve financing executed in 2012.

Product sales and face amount in force. We issued 222,558 new life insurance policies in 2012, compared with 237,535 new policies in 2011, primarily as a result of recruiting growth following our 2011 convention and the subsequent return to a normalized range of productivity during 2012.

The changes in the face amount of our in-force book of term life insurance policies were as follows:

	Year ended December 31,			
	2012	% of beginning balance	2011	% of beginning balance
	(Dollars in millions)			
Face amount in force, beginning of period	\$664,955		\$656,791	
Net change in face amount:				
Issued face amount	68,053	10 %	73,146	11 %
Terminations	(61,593 )	(9 )%	(66,951 )	(10 )%
Foreign currency	(1,003 )	*	1,969	*
Net change in face amount	5,457	1 %	8,164	1 %
Face amount in force, end of period	\$670,412		\$664,955	

\*Less than 1%.

The total face amount of policies in force increased in 2012 reflecting lower terminations on existing policies, partially offset by a decline in the issued face amount of policies. The primary cause for the decrease in issued face amount during 2012 is the impact that the 2011 recruiting surge had on new policies issued in the prior year. The decrease in terminations resulted from higher persistency.

Investment and Savings Product Segment. Our results of operations for the Investment and Savings Products segment for the years ended December 31, 2012 and 2011 were as follows:

	Year ended December 31,		Change \$	% %
	2012	2011		
	(Dollars in thousands)			
Revenues:				
Commissions and fees:				
Sales-based revenues	\$186,267	\$171,854	\$14,413	8 %
Asset-based revenues	179,725	173,059	6,666	4 %
Account-based revenues	38,510	41,997	(3,487 )	(8 )%
Other, net	9,463	9,793	(330 )	(3 )%
Total revenues	413,965	396,703	17,262	4 %
Expenses:				
Amortization of DAC	10,956	12,482	(1,526 )	(12 )%
Insurance commissions	9,070	8,851	219	2 %
Sales commissions:				
Sales-based	129,914	118,387	11,527	10 %
Asset-based	61,491	57,901	3,590	6 %
Other operating expenses	81,418	82,006	(588 )	(1 )%
Total expenses	292,849	279,627	13,222	5 %
Income before income taxes	\$121,116	\$117,076	\$4,040	3 %





Table of Contents

Supplemental information on the underlying metrics that drove results follows.

	Year ended December 31,		Change		
	2012	2011	\$	%	
(Dollars in millions and accounts in thousands)					
Product sales:					
Retail mutual funds	\$2,346	\$2,230	\$116	5	%
Annuities and other	1,902	1,674	228	14	%
Total sales-based revenue generating product sales	4,248	3,904	344	9	%
Segregated funds	328	332	(4)	(1)	)%
Managed accounts	136	29	107	*	
Total product sales	\$4,712	\$4,265	\$447	10	%
Average client asset values:					
Retail mutual funds	\$24,214	\$24,105	\$109	*	
Annuities and other	9,149	8,276	873	11	%
Segregated funds	2,541	2,489	52	2	%
Total average asset values in client accounts	\$35,904	\$34,870	\$1,034	3	%
Average number of fee-generating accounts:					
Recordkeeping accounts	2,567	2,627	(60)	(2)	)%
Custodial accounts	1,945	1,956	(11)	(1)	)%

\*Less than 1% or not meaningful.

Commissions and fees. Commissions and fees increased largely due to higher product sales, as well as an increase in average client asset values. The increase in product sales was driven by higher mutual fund sales and new offerings of fixed-indexed annuities, which was partially offset by a decline in variable annuity sales. Higher asset-based revenues were primarily the result of the increase in average client asset values, which reflects market conditions combined with an increase in sales mix towards managed accounts products launched in 2011. The distribution of managed accounts results in higher ongoing asset-based revenues in lieu of upfront sales-based revenues. The increases in total revenues were slightly offset by a recordkeeping fee structure change that resulted in a decrease in account-based revenues and other operating expenses.

Amortization of DAC. The decrease in the rate of DAC amortization was primarily driven by the impact of improved investment returns on our Canadian segregated funds products.

Sales commissions. The increase in commissions was primarily driven by the increases in commissions and fees revenue noted above.

Other operating expenses. Other operating expenses remained comparatively flat year-over-year as the decrease in expenses from the change in the recordkeeping fee structure discussed above was mostly offset by increased legal fees and expenses, as well as higher employee compensation costs from merit increases and another year of stock compensation amortization. The increase in legal fees and expenses was primarily due to \$2.9 million of expenses recorded in the fourth quarter of 2012 attributable to defending claims alleged by certain participants in the Florida Retirement System's benefit plan. See Note 15 (Commitments and Contingent Liabilities) to our consolidated financial statements included elsewhere in this report for more information.

Product sales. Investment and savings products sales were higher in 2012 compared to 2011 largely reflecting the introduction of our fixed indexed annuity and managed accounts products and greater sales of retail mutual funds.

Table of Contents

Asset values in client accounts. Changes in asset values in client accounts were as follows:

	Year ended December 31,			
	2012	% of beginning balance	2011	% of beginning balance
	(Dollars in millions)			
Asset values, beginning of period	\$33,664		\$34,869	
Net change in asset values:				
Inflows	4,712	14 %	4,265	12 %
Redemptions	(4,442 )	(13 )%	(4,275 )	(12 )%
Change in market value, net and other	3,452	10 %	(1,195 )	(3 )%
Net change in asset values	3,722	11 %	(1,205 )	(3 )%
Asset values, end of period	\$37,386		\$33,664	

Asset values in client accounts increased in 2012 largely due to improved market conditions. The growth in inflows was consistent with the increase in product sales volume. Redemptions increased during 2012 primarily due to the increase in average client asset values. In 2012, the rate of redemptions relative to average client asset values remained in line with 2011.

Corporate and Other Distributed Products Segment. Our results of operations for the Corporate and Other Distributed Products segment for the years ended December 31, 2012 and 2011 were as follows:

	Year ended December 31,		Change	
	2012	2011	\$	%
	(Dollars in thousands)			
Revenues:				
Direct premiums	\$74,695	\$79,873	\$(5,178 )	6%
Ceded premiums	(14,131 )	(14,122 )	9	*
Net premiums	60,564	65,751	(5,187 )	8%
Commissions and fees	24,542	27,561	(3,019 )	(11 )%
Allocated net investment income	34,685	47,933	(13,248 )	(28 )%
Realized investment gains, including OTTI	11,382	6,440	4,942	77 %
Other, net	5,443	5,730	(287 )	(5 )%
Total revenues	136,616	153,415	(16,799 )	(11 )%
Benefits and expenses:				
Benefits and claims	39,401	45,537	(6,136 )	(13 )%
Amortization of DAC	3,370	2,078	1,292	62 %
Sales commissions	13,164	15,434	(2,270 )	(15 )%
Insurance expenses	11,385	14,144	(2,759 )	(20 )%
Insurance commissions	8,886	10,371	(1,485 )	(14 )%
Interest expense	17,266	16,501	765	5 %
Other operating expenses	83,298	82,948	350	*
Total benefits and expenses	176,770	187,013	(10,243 )	(5 )%
Loss before income taxes	\$(40,154 )	\$(33,598 )	\$6,556	20 %

\*Less than 1%.

Total revenues. Total revenues decreased during the year ended December 31, 2012 primarily due to lower net investment income from a lower average base of invested assets subsequent to share repurchases throughout 2012. The decline also resulted from the termination of our loan business and a decrease in our short-term disability product line. These decreases were partially offset by realized investment gains from the sale of invested assets sold to fund share repurchases during 2012.

Benefits and claims. Benefits and claims were lower primarily due to lower claims experienced on our short-term disability product, which is underwritten by NBLIC, our New York insurance subsidiary. Benefits and claims were also lower compared to the prior year due to the impact of an approximately \$1.1 million charge recorded during 2011 to

57

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Table of Contents

record cumulative potential claims related to cross-checking public death records to identify deceased policyholders for whom claims have not been filed and of which we were unaware, which did not repeat in the 2012.

Amortization of DAC. During the year ended December 31, 2012, DAC amortization increased approximately 62% primarily associated with refinements in policy estimates for student life products.

Insurance expenses. Insurance expenses were lower in 2012 in large part due to a charge for our estimated share of the liquidation plan for Executive Life Insurance Company of New York, an unaffiliated life insurance company, filed by the New York State Department of Financial Services during 2011.

Sales commissions. The decrease in sales-based commissions was primarily driven by the decline in commissions and fees revenue related to the termination of our loan business.

Interest expense. Interest expense increased primarily due to the issuance of the Senior Notes in 2012, which was at higher principal amount versus the repaid note issued to Citigroup. This increase was partially offset by the comparatively lower interest rate on the Senior Notes.

Other operating expenses. The increase in other operating expenses is largely attributable to higher employee compensation costs from merit increases and an additional year of stock compensation amortization, partially offset by certain prior year charges.

Financial Condition

Investments. We have an investment committee composed of members of our senior management team that is responsible for establishing and maintaining our investment guidelines and supervising our investment activity. Our investment committee regularly monitors our overall investment results and our compliance with our investment objectives and guidelines. We use a third-party investment advisor to manage our investing activities. Our investment advisor reports to our investment committee.

We follow a conservative investment strategy designed to emphasize the preservation of our invested assets and provide adequate liquidity for the prompt payment of claims. To meet business needs and mitigate risks, our investment guidelines provide restrictions on our portfolio's composition, including limits on asset type, sector limits, credit quality limits, portfolio duration, limits on the amount of investments in approved countries and permissible security types. We may also direct our investment managers to invest some of our invested asset portfolio in currencies other than the U.S. dollar. For example, a portion of our portfolio is invested in assets denominated in Canadian dollars, which, at minimum, would equal our reserves for policies denominated in Canadian dollars. Additionally, to ensure adequate liquidity for payment of claims, we take into account the maturity and duration of our invested asset portfolio and our general liability profile.

Our invested asset portfolio is subject to a variety of risks, including risks related to general economic conditions, market volatility, interest rate fluctuations, liquidity risk and credit and default risk. Investment guideline restrictions have been established to minimize the effect of these risks but may not always be effective due to factors beyond our control. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. A significant increase in interest rates could result in significant losses, realized or unrealized, in the value of our invested asset portfolio. Additionally, with respect to some of our investments, we are subject to prepayment and, therefore, reinvestment risk.

Table of Contents

Details on asset mix were as follows:

	December 31, 2013		December 31, 2012	
	Fair value	Amortized Cost	Fair value	Amortized Cost
U.S. government and agencies	*	*	*	*
Foreign government	6%	6%	6%	5%
States and political subdivisions	2%	2%	2%	2%
Corporate	67%	67%	68%	68%
Mortgage- and asset-backed securities	14%	14%	16%	16%
Equity securities	2%	2%	2%	2%
Trading securities	1%	1%	1%	1%
Cash and cash equivalents	8%	8%	5%	6%
Total	100%	100%	100%	100%

\*Less than 1%.

The composition and duration of our portfolio will vary depending on several factors, including the yield curve and our opinion of the relative value among various asset classes. The year-end average rating, duration and book yield of our fixed-maturity portfolio were as follows:

	December 31,	
	2013	2012
Average rating of our fixed-maturity portfolio	A	A
Average duration of our fixed-maturity portfolio	4.0 years	3.9 years
Average book yield of our fixed-maturity portfolio	4.93%	5.32%

Ratings for our investments in fixed-maturity securities are determined using Nationally Recognized Statistical Rating Organizations designations and/or equivalent ratings. The distribution of our investments in fixed-maturity securities by rating, including those classified as trading securities, follows.

	December 31, 2013		December 31, 2012	
	Amortized cost	%	Amortized cost	%
	(Dollars in thousands)			
AAA	\$296,717	18%	\$317,104	18%
AA	133,406	8%	132,021	8%
A	386,460	23%	403,029	24%
BBB	777,111	46%	777,719	45%
Below investment grade	80,835	5%	88,422	5%
Not rated	1,484	*	1,049	*
Total	\$1,676,013	100%	\$1,719,344	100%

\*Less than 1%.

Table of Contents

The ten largest holdings within our invested asset portfolio were as follows:

Issuer	December 31, 2013			
	Fair value	Cost or amortized cost	Unrealized gain (loss)	Credit rating
	(Dollars in thousands)			
General Electric Co	\$26,661	\$23,628	\$3,033	AA-
Government of Canada	26,112	26,199	(87)	AAA
International Business Machines Corp	12,088	11,855	233	AA-
Province of Ontario Canada	10,851	9,969	882	AA-
Iberdrola SA	10,431	9,461	970	BBB
National Rural Utilities Cooperative	9,901	7,468	2,433	A+
Western Union Co	8,828	8,784	44	BBB+
MetLife Inc	8,693	8,589	104	A-
Province of Quebec Canada	7,912	7,218	694	A+
Goldman Sachs Group Inc	7,854	7,357	497	A-
Total – ten largest holdings	\$129,331	\$120,528	\$8,803	
Total – fixed-maturity and equity securities	\$1,808,597	\$1,708,605		
Percent of total fixed-maturity and equity securities	7	% 7	%	

For additional information on our invested asset portfolio, see Note 3 (Investments) and Note 4 (Fair Value of Financial Instruments) to our consolidated financial statements included elsewhere in this report.

Other Significant Assets and Liabilities. The balances of and changes in other significant assets and liabilities were as follows:

	December 31,		Change	
	2013	2012	\$	%
	(Dollars in thousands)			
Assets:				
Due from reinsurers	\$4,055,054	\$4,005,194	\$49,860	1 %
Deferred policy acquisition costs, net	1,208,466	1,066,422	142,044	13 %
Liabilities:				
Future policy benefits	5,063,103	4,850,488	212,615	4 %

Due from reinsurers. Due from reinsurers reflects future policy benefit and claim reserves due from third-party reinsurers, including the Citigroup reinsurers. Such amounts are reported as due from reinsurers rather than offsetting future policy benefits.

Deferred policy acquisition costs, net. The increase in DAC was primarily a result of incremental commissions and expenses deferred as a result of new business, which was not subject to the Citigroup reinsurance agreements.

Future policy benefits. The increase in future policy benefits was primarily a result of the aging of and growth in our in-force book of business.

For additional information, see the notes to our consolidated financial statements included elsewhere in this report.

### Liquidity and Capital Resources

Dividends and other payments to the Parent Company from our subsidiaries are our principal sources of cash. The amount of dividends paid by our subsidiaries is dependent on their capital needs to fund future growth and applicable regulatory restrictions. The primary uses of funds by the Parent Company include the payments of general operating expenses, income taxes, stockholder dividends, and interest on outstanding debt, as well as repurchases of shares outstanding. At December 31, 2013, the Parent Company had cash and invested assets of approximately \$73.8 million. Our subsidiaries generate operating cash flows primarily from term life insurance premiums (net of premiums ceded to reinsurers), income from invested assets, commissions and fees collected from the distribution of investment and savings products as well as other financial products. Our subsidiaries' principal operating cash outflows include the payment of insurance claims and benefits (net of ceded claims recovered from reinsurers), commissions to our sales

force, insurance

60

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Table of Contents

and other operating expenses, interest expense for future policy benefit reserves financing transactions, and income taxes.

The distribution and underwriting of term life insurance requires upfront cash outlays at the time the policy is issued as we pay a substantial majority of the sales commission during the first year following the sale of a policy and incur costs for underwriting activities at the inception of a policy's term. During the early years of a policy's term, we generally receive level term premiums in excess of claims paid. We invest the excess cash generated during earlier policy years in fixed-maturity and equity securities held in support of future policy benefit reserves. In later policy years, cash received from the maturity or sale of invested assets is used to pay claims in excess of level term premiums received.

Historically, cash flows generated by our businesses, primarily from our existing block of term life policies and our investment and savings products, have provided our consolidated entities with sufficient liquidity to meet their operating requirements. We anticipate that cash flows from our businesses will continue to provide sufficient operating liquidity over the next 12 months.

We may seek to enhance our liquidity position or capital structure through borrowings from third-party sources, sales of debt or equity securities, reserve financings or some combination of these sources. Additionally, we believe that cash flows from our businesses and potential sources of funding, as described above, will sufficiently support the long-term liquidity needs of the Parent Company and our subsidiaries.

Cash Flows. The components of the changes in cash and cash equivalents were as follows: